AUDITOR
GENERAL
*Alberta*

# Annual Report of the Auditor General of Alberta

2000-2001

AUDITOR
GENERAL
*Alberta*

Ms. Janis Tarchuk, MLA
Chair
Standing Committee on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 2001, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the *Auditor General Act*.

This is my seventh annual report to the Legislative Assembly and the twenty-third such report issued by the Auditor General of Alberta.

[Original Signed by Peter Valentine]
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 26, 2001

# Contents

## Introduction

1 Report for the year ended March 31, 2001
2 Improving the financial administration of the Province
5 Ministry audits and recommendations
10 Public sector accounting standards
12 Disaster recovery
13 Acknowledgements

## Ministry Audits and Recommendations

15 2000-2001 recommendations
25 Analysis of 2000-2001 numbered recommendations
27 Cross-Government
47 Agriculture, Food and Rural Development
55 Children's Services
73 Community Development
79 Economic Development
81 Environment
93 Executive Council
97 Gaming
103 Government Services
109 Health and Wellness
137 Human Resources and Employment
145 Infrastructure
167 Innovation and Science
177 International and Intergovernmental Relations
181 Justice and Attorney General
187 Learning
223 Legislative Assembly
225 Municipal Affairs
233 Resource Development
243 Treasury
263 Section 12(b) Audits

## Past Recommendations

265 Status of past numbered recommendations
281 Government's response to 1999-2000 numbered recommendations

## Who We Are and What We Do

293 Legislative auditing
299 Reservations and other information included in auditor's reports
301 Report under section 18 of the *Auditor General Act*
303 Performance report for the year ended March 31, 2001
325 Committees and Agents
327 Staff
329 *Auditor General Act*

# Report for the year ended March 31, 2001

## Purpose of Auditor General annual reports

The annual report of the Auditor General explains the scope and results of the work of the Office of the Auditor General.

*Our work assists the government to improve its performance*

The Legislative Assembly funds our work to assist legislators, in particular the Public Accounts Committee, to hold the government accountable for managing public resources. By identifying opportunities and proposing solutions for better systems and business practices, we assist government and public agencies to improve their performance.

## Scope and results of work

*There is a section for each ministry in "Ministry Audits and Recommendations"*

In *Ministry Audits and Recommendations* we include a section for each ministry of the Alberta government. In these sections, we describe the scope and results of our 2000-2001 audit work. We make our recommendations for improving the financial and management control systems we examined.

*Page 299 lists auditor's reports with reservations of opinion*

I have issued an auditor's report for every financial statement we audited. As required by the *Auditor General Act*, we have listed (page 299) the reports that contain reservations or disclose transactions that do not have legislative authority.

*Compliance with the law*

I am satisfied that the transactions and activities examined in financial statement audits complied, in all significant respects, with relevant legislative authorities, apart from the instances of non-compliance described at page 300. We've examined only some transactions and activities, so I caution readers that it would be inappropriate to conclude that all transactions comply with the law.

# Improving the financial administration of the Province

## Accountability

*"Accountability" defined*

By *accountability* we mean the obligation to answer for the execution of one's assigned responsibilities. *Accountability* means reporting results compared to agreed-upon expectations. Accountable people and organizations explain any differences between their planned and actual results: how much was spent, what was delivered, and what was achieved. Through *accountability*, Albertans decide whether the government is doing a good job. They can examine what government provides, as well as what it spends, and assess both the costs and benefits of government action.

All those who use public resources should:

1. Set measurable goals, and responsibilities
2. Plan how to achieve the goals
3. Do the work and monitor progress
4. Report on results
5. Evaluate results and provide feedback to refine or adjust plans

Ministries meet their responsibilities by using systems to plan, manage, control and measure their performance.

*Culture change is not complete*

There are significant and visible signs of improved accountability processes in Alberta stemming from the *Government Accountability Act*; these include, three-year business plans and ministry annual reports. Less visible and more important is the change to corporate culture that has been brought on by the new thinking that flows from improved accountability. Changing the culture takes time and requires unwavering leadership. Continued effort is needed since the culture change is not complete. I commend the government for its success to date, but also encourage it to keep up the pressure.

## Recommendations

*How we determine significance*

When determining whether a matter is significant enough to bring to the attention of Public Accounts Committee members, ministers, other MLAs, the public, and management, I consider the nature and materiality of the matter relative to the individual entity and to the government as a whole.

*24 numbered recommendations have been repeated*

This report contains 88 recommendations. Of these, the 50 recommendations that I consider particularly important, which need a formal government response, are numbered. Of the 50 numbered recommendations, 26 are new. The other 24 are designed to maintain focus on previous recommendations that have not yet been fully implemented.

*We've used the accountability framework to analyze our recommendations*

As in previous years, we have analyzed our recommendations using the accountability framework to stress that it is fundamental to improving performance. The analysis shows the government and its managers where they have further to go in planning what needs to be done, doing the work, and reporting on results.

## Analysis of numbered recommendations

*Setting measurable goals, and responsibilities, and planning how to achieve the goals*

Of our numbered recommendations, 18 (last year 17) are designed to assist managers by having them focus on business planning and performance measurement. This effort includes developing comprehensive, timely business plans. Also, it establishes the performance measures that will be used in reporting the managers' results and in evaluating the performance of entities to which they have delegated work or authority.

*Doing the work and monitoring progress*

We have made 25 numbered recommendations (last year 19) to do with day-to-day business practice, and the conversion of plans into operating reality. They range from dealing with real risks to seizing opportunities to deliver services more efficiently.

*Reporting on results*

It is my job as Auditor General not only to add credibility to performance reporting, including financial reporting, but also to recommend improvements in that reporting. Therefore, 12 recommendations (last year 14) suggest ways to improve reporting on results.

*Evaluating results and providing feedback to refine or adjust plans*

We have not yet tried to assess the extent and quality of the evaluation of results since we have been gaining experience about reporting on results. Now that the government reports more on results, people should plan how to use that information.

## Status of past numbered recommendations

*The benefit of audit work is in the implementation of recommendations*

The status of past numbered recommendations is reported at page 265. Since the benefit of audit work is not in the recommendations, but in their effective implementation, we always follow up until they have been implemented. We now have 17 recommendations made before 1998 that have not been implemented. We have repeated 11 of these as numbered recommendations and asked for an updated government response.

*Deputy ministers are responsible for implementing accepted recommendations*

The basic responsibility for taking action on accepted audit recommendations rests with the deputy ministers to whom the recommendations were made. Resolving some issues is difficult and I acknowledge the demand on ministry resources. I have seen, though, when senior people invest time, effort, and personal commitment, the chance of favourable action on a recommendation is greatly increased. This year, for example, the government and my Office found an acceptable way to allocate all significant costs to the ministries responsible for delivering programs.

## Reservations in auditor's reports on financial statements

*Some departures from GAAP have been outstanding too long*

Whenever I form the opinion that a set of financial statements prepared by management does not follow Canadian generally accepted accounting principles (GAAP), I issue a reservation of opinion. The number of my auditor's reports with reservations is gradually decreasing, which means the quality of financial reporting is generally improving. However, I am concerned that there remains a nucleus of departures from GAAP that has been outstanding for too long.

*Implementing Recommendation No. 45 is critical*

Recommendation No. 45 to the Ministry of Finance again recommends changes to the corporate government accounting policies. I encourage the Controller of the Province, together with the senior financial officers of the ministries, to work with my staff to resolve the outstanding issues on pages 245 to 249.

## Government restructuring

Government restructuring announced on March 15, 2001, resulted in changed responsibilities by creating several new ministries.

*Accountability preserved for 2000-2001 government reporting*

Since the 2000-2001 fiscal year was almost over before this announcement, ministry financial statements and annual reports for the year ended March 31, 2001 have been prepared as if the restructuring took place on April 1, 2001, to provide proper accountability for the 2000-2001 fiscal year against the original business plans.

*This 2000-2001 annual report mirrors government reporting*

This annual report follows the logic of reporting on the government ministries as they were on March 15, 2001, before the restructuring. However, we have made our recommendations to the ministries that have to implement them and report on their progress to the Public Accounts Committee.

# Ministry audits and recommendations

In this section, I highlight audit observations that cause me special concern. I also single out those improvements that are particularly noteworthy.

## Internal control

*3 Provincial agencies need to improve their internal control systems*

Management is responsible for the effectiveness of the internal control system in an organization, and the governing body should ensure that the control system does operate. The control system is designed to provide reasonable assurance that an organization will achieve its objectives reliably. The control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- applicable laws, regulations and internal polices are being complied with

There are three Provincial agencies that need to significantly improve their procedures and control activities to ensure their continuing relevance and reliability. Accordingly, under *Ministry Audits and Recommendations*, we discuss internal control problems and make recommendations to:

- The University of Alberta
- The University of Calgary
- Alberta Treasury Branches

## Cross-Government

*Good progress with business planning, human resource management and governance*

Our Cross-Government audit work has concentrated on following-up previous recommendations to improve the Province's business planning, human resource management, and governance.

I can report good progress with business plans. Although some business plans do not yet fully cost core businesses, link goals to the core businesses, or show performance targets, overall, the quality of business planning has improved.

The government's employee performance management systems have been improved, and the government now has a good framework for governing agencies, boards and commissions.

I have directed the government to two areas that require more attention.

*Standards needed for business cases*

First, the government should develop standards for business cases. There is a risk of decisions being made without sufficient consideration of value for money.

*Service level agreements needed*

Second, the service level agreements between Alberta Corporate Service Centre and ministries need to be developed and signed. As well, more relevant agreements between ministries, where services are provided by one to another, are needed. Otherwise, there is a risk that the benefits of shared service arrangements will not be realized.

## Children's Services

*Good progress in implementing our recommendations*

I am pleased with the progress made in the Ministry of Children's Services. Last year I said that the administration of the new service delivery model turned out to be more difficult than the government had anticipated or was prepared for. But I was optimistic that the newly created Ministry understood and would begin to resolve the problems.

The Minister's success in achieving her goals depends on how well each Authority's board, accountable to her for cost-effectiveness, governs. It will take several years to fully implement our recommendations for effective governance systems, but progress has been satisfactory.

*More work needed to provide information on cost-effectiveness of services*

Without good financial management and reporting, the Children's Services initiative will not be cost-effective. But to control costs one must first understand them. It is not good enough to simply report actual spending against budget. The Department and Authorities have made progress in improved systems that provide information on the cost-effectiveness of programs and treatment alternatives, but more work is needed.

## Health and Wellness

*Inadequate progress*

I am concerned that the Department of Health and Wellness has not made adequate progress in implementing past recommendations.

*Risk that costs escalate but results won't improve*

In this year's report, you will read that the Department continually spends more money on our health system without knowing the value of that extra spending. The primary risk for the Department, regional health authorities, and physicians is that costs will escalate but results won't improve. Although the health budget continually and rapidly increases, supplementary funding is commonly used and one-time funding is now chronic. The principle that we follow as individuals, of managing within the resources we have, does not seem to apply. Health authorities spend money before their business plans are approved and the Department is not doing enough to measure and report the quality and cost of health services.

*Findings and recommendations from 3 years ago still apply*

These findings and my recommendations are not new. For example, the following summary is taken word for word from my 1997-1998 annual report. What I said three years ago still applies:

> *"The decentralized and complex structure of the health system challenges the Department of Health to orchestrate many stakeholders in the achievement of goals and improvement of the health system. Central direction and leadership are required in balance with self-managed health authorities.*
>
> *"Health authorities are accountable for the delivery of health services in response to the health needs of each region and to follow the direction of the Minister of Health. Multi-stakeholder committees and working groups are commonly used as a means for dealing with issues and making decisions.*
>
> *"In this environment, the achievement of goals and strategies requires efficient and effective business planning and the communication of relevant performance information. The cost-effective delivery of health services requires an efficient division of responsibilities among entities and clear accountability for results achieved.*
>
> *"Accountability is of central importance to the health system of Alberta. Accountability is about the setting of expectations, measuring results and costs, and taking action to improve results. It is key to achieving cost-effective use of resources and dealing with increasing demand for services.*
>
> *"There are many important accountability issues at hand. These include finalizing the accountability of the various entities who function in the health system, implementation of a Board governance reporting system, improved business planning, advancing the reporting of performance, and improving systems for paying physicians."*
>
> *(Annual Report of the Auditor General of Alberta 1997-1998 pages 119-120)*

I do not believe that management ignores my audits and recommendations. Management agrees with recommendations and tries to implement them. However, progress is unsatisfactory.

My Office will continue to recommend ways to improve the management of health resources since that is our job. We will continue to report on our performance in terms of whether our recommendations are implemented. The challenge is to get senior people to invest time, effort, and personal commitment in resolving the issues outstanding since restructuring of the health system began.

## Infrastructure

*Capital asset planning is about long-term costs and benefits*

The fundamental purpose of an information system is to provide evidence to enlighten decision-making. Policy makers need instructive capital asset planning systems that rigorously analyze all alternative strategies. Capital asset planning is more than thinking about annual cash availability; it means thinking about long-term cost and benefits.

*Capital asset planning systems are improving*

Two years ago, I acknowledged that capital asset planning systems were being developed and I commended the government's initiatives to improve planning from a government-wide perspective. Improved information is vital for informed debate on the amount and timing of required capital investments and the options available to fund them. Last year, we found that the Ministry of Infrastructure had many of the elements of capital asset management systems or was developing these systems by implementing the Capital Planning Initiative. We concluded that the Ministry needed a process to monitor how the Initiative was implemented.

*The Ministry is monitoring and evaluating progress*

Our evidence today is that the Ministry is monitoring and evaluating its progress in implementing the Capital Planning Initiative. Also, it has made progress in implementing specific recommendations on long-term capital asset plans, and infrastructure management systems.

*Standards needed for business cases*

Fresh audit work shows that the Ministry should establish and enforce its requirements for preparing business cases for infrastructure projects.

*Information needed on extent and cost of deferred maintenance*

The Ministry does not have reliable information on the extent and cost of deferred maintenance on infrastructure that it owns or supports. We have recommended that the Ministry take steps to ensure its spending decisions are based on adequate information.

## Learning

*The reporting entity should be expanded*

Learning is a large ministry with recorded spending of $4.5 billion. But as I discuss in the Learning section of *Ministry Audits and Recommendations*, an appropriate expanded reporting entity, including school jurisdictions, colleges, technical institutes and universities, would show spending of over $6 billion.

*4 out of 11 recommendation have been repeated*

I have included 11 numbered recommendations to the Ministry and its Provincial agencies. Of these, four are repeated from previous years, covering long-term capital planning, the critical health and safety risks of deferred maintenance, internal control weakness, and charter school accountability. The recommendation to measure charter school results has yet to be fully implemented four years after it was first made.

*Better quality data needed from PSIs*

New recommendations include the need to improve the quality of data collected from post-secondary institutions (PSIs). This is the data the Department uses to assess performance and make funding decisions.

*Updated Capital Assets Policy Statement needed*

We have also recommended that the Department issue an updated Capital Assets Policy Statement. This guidance will allow the PSIs to make appropriate assumptions about capital funding sources and so produce better capital budgeting plans.

## Treasury (now Finance)

*One recommendation not accepted*

Last year, there was only one recommendation that the government did not accept. It related to identifying the expected and actual results from revenues foregone. In my opinion, the government and MLAs must reconsider this issue.

*Alberta government leads other governments in accountability*

As I have often said, the Alberta government has led the senior government sector in Canada in promoting and implementing transparency in government. It has advanced accountability, performance measurement and financial reporting. The Alberta government has established an accountability framework that includes budgets and business plans, quarterly updates, performance reports, and annual audited financial statements. The Province continues to lead senior governments in Canada in the timely release of annual audited financial results and in reporting on performance measures.

*Significant gap in Alberta accountability for tax expenditures*

I am concerned, however, that a significant gap exists in the accountability framework. There is a lack of transparency for social and economic benefits targeted at specific segments of Albertans as tax expenditure programs, rather than as direct expenditures. These programs cause significant amounts of foregone revenues for the Province. Foregone revenues have the same fiscal impact as direct expenditures of equal amount. But, revenues foregone are not scrutinized and approved by the Legislature; nor are goals for such programs set and performance measured. It is not only the monetary aspects that are important, but also the results expected and achieved. For example, the Alberta government has not proposed, and submitted to the Legislative Assembly for debate and approval, the social or economic objectives and targets for the Alberta fuel tax exemption to farmers or for royalty reductions to the petrochemical industry. Are the objectives and targets related to continued employment of the Alberta workforce, or to strategic diversity of the Alberta economy, or to something else?

*Similar issue in the Ministry of Resource Development*

A similar issue is identified for royalty holiday and incentive programs in the Ministry of Resource Development section of this report.

*Albertans need full disclosure of tax expenditure programs*

Without full disclosure of the purpose, results and financial impact of taxes foregone, how can elected officials make informed decisions on the efficiency and effectiveness of such government programs? It is the elected officials' responsibility to make the best possible decisions, and they can do so only if they have the essential information. For example, the government's annual report to Albertans should include a report on tax expenditures. Such a report would allow elected officials to identify what the social and economic benefits were, relative to their costs (of foregone revenues), and to decide whether to continue such programs.

*Many governments have used reports on tax expenditures to assist governance*

For years now, the governments of many countries, states and provinces have used reports on tax expenditures to evaluate their financial condition and the usefulness of tax expenditure programs to achieve social and economic objectives. Those governments emphasize that tax expenditures represent revenues foregone due to preferential tax provisions such as exclusions, deductions, exemptions, credits, deferrals or preferential tax rates.

*Tax relief for some people is paid for by other people. That should be transparent and clear*

In short, tax expenditures administered through the tax system are social and economic programs that cause revenue losses by granting tax relief to specific groups of individuals or organizations. These tax relief programs are paid for by higher taxes on other individuals and organizations or by reduced services.

Accordingly, I have repeated my recommendation to the Ministry of Finance (page 254).

---

## Public sector accounting standards

*Auditor General appointed to standard setting Board*

In April 2001, I was appointed to a two-year term as a member of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. I'm pleased to take a leadership role in developing generally accepted public sector accounting standards.

The Board's major challenge is to continually improve public sector financial reporting. Two significant projects underway deal with the government reporting model and government transfers.

### Government reporting model

*Two conflicting bases of accounting*

We assess whether the financial statements of Alberta ministries and their agencies are prepared in accordance with Canadian generally accepted accounting principles. But we assess whether the consolidated financial statements of the Province are prepared in accordance with principles developed for financial reporting by senior governments. The significant difference is that ministries include capital assets on their balance sheets (a generally accepted principle) but those same assets are treated as expenditures at the consolidated level (an accounting treatment that is not generally accepted but is disclosed as the basis of the accounting).

*Standard setter proposes one common basis of accounting*

The Public Sector Accounting Board has issued proposed changes to the senior government reporting model and asked for comments on them. The new model recognizes government capital property as assets and charges the cost of using those assets to the annual surplus or deficit of a government over the useful life of the assets. The model incorporates all non-financial assets of a government, including tangible capital assets, inventories of supplies and prepayments, and recognizes the consumption of these assets as costs of the period.

*Reason for standard setter's proposal*

The Board asserts that the financial position of a government is understated if it does not include these non-financial assets because these assets represent un-expired service potential acquired by the government. The government can use both financial and non-financial assets to fulfil its objectives and provide services in the future. And so, both the financial and non-financial assets of a government represent economic resources of the government.

The project schedule calls for a public exposure draft from the Board in February 2002.

## Government transfers

*Accounting for government transfers has become controversial*

Government transfers are transfers of money from a government to an individual, an organization or another government for which the government making the transfer does not directly receive any goods or services in return. One major type of transfer is grants—transfers that are made at the discretion of a government. Senior governments and their auditors have developed equally valid yet differing interpretations of the Board's accounting requirements for transfers when they try to apply them to accounting issues that may not have been contemplated when the requirements were drafted in 1990. For example, multi-year funding arrangements, in particular those that have arisen near the financial statement reporting date, may be accounted for inconsistently. The Board is planning to develop amendments to its guidance.

## Disaster recovery

*Responsibility for co-ordinating business resumption plans*

On page 230 of this report under Municipal Affairs, I discuss the subject of business resumption planning and emergency planning together with the role of the Disaster Services Branch. I indicate that my Office "is concerned that, at present, no branch of government is taking active responsibility for co-ordinating business resumption plans across the entire government. Nor is there any single department or branch promoting the development of such plans." These words were written prior to the recent catastrophes in New York and Washington.

*Events of September 11, 2001*

Events of September 11, 2001 have brought new meaning to the words "disaster recovery" in an unfortunate and tragic way. We all have a greater awareness of the importance of planning to prevent, deal with and recover from such tragedies. I am pleased to see that the Premier established a Ministerial Task Force, within hours of the tragedy occurring, to monitor events and the possible impact on the Province.

*Action needed to ensure "Alberta will be a safe place to live and raise families"*

As noted in the Municipal Affairs section of this report, the identification of the need to develop or complete business resumption plans was made in nine major departments. I now call on the government to ensure business resumption plans exist for all departments, as part of the government's goal number 14 that "Alberta will be a safe place to live and raise families."

# Acknowledgments

*Improvements to assist comprehension*

This is my seventh Annual Report. Each year improvements are made and this year is no exception. We have changed the writing style and improved the layout and use of colour. These changes will improve comprehension of the issues discussed. Throughout the report, there is the reference to "we" which means the 114 full-time staff members of the Office of the Auditor General and our 21 agent firms in 13 Alberta communities.

*Cooperation is appreciated*

My staff and I appreciate the cooperation we receive from our clients and we recognize it is crucial to the success of our work. Legislators, senior management and board members of client organizations continue to make time to meet with us to discuss audit plans and audit results. In carrying out our work, we received the information, reports and explanations that were required

*Value of our work*

Government acceptance of our recommendations continues at a high level and we believe this demonstrates the value of our recommendation work.

*Thanks*

The greatest resource of the Office is its staff. Together with the agent firms, they continue to work diligently for Albertans. I thank them for their dedication and productive, professional work.

[Original Signed by Peter Valentine]
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 14, 2001

## Cross-Government

**Recommendation No. 1**

**Standards for business cases**

We recommend that the Ministry of Executive Council work with other ministries to develop standards for business cases.

**Recommendation No. 2**

**Service level agreements**

We recommend that the Deputy Minister of Executive Council, the Alberta Corporate Service Centre and Ministries take immediate action to develop and sign service level agreements that detail the services to be provided by the Centre, the associated costs and performance measures.

*Unnumbered*

**Shared service agreements between departments**

We recommend that Deputy Ministers review and update shared service agreements for services provided between departments.

## Agriculture, Food and Rural Development

**Recommendation No. 3**

**Evaluating program success**

We recommend that the Department evaluate the success of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves as well as individual grants within the programs.

**Recommendation No. 4**

**Evaluation of the Farm Income Disaster Program**

We again recommend that the Department of Agriculture, Food and Rural Development perform annual performance evaluations of the Farm Income Disaster Program (FIDP) to assess the achievement of the program.

## Children's Services

*Unnumbered*

**Reconciliation of recoveries to payments**

We recommend that the Department of Children's Services regularly reconcile recoveries from the federal government and band agencies to the related payments to Authorities, for services provided to children normally resident on reserves.

**Recommendation No. 5**

**Information systems**

We again recommend that the Ministry improve its information systems that report the costs and results of services.

*Unnumbered*

**Risk management system**

We recommend that each Authority ensure that an appropriate risk assessment is carried out and that they establish a risk management system.

*Unnumbered*

**In-camera meetings**

We recommend that Authorities maintain minutes for in-camera meetings.

**Recommendation No. 6**

**Improve business plans**

We again recommend that the Ministry and Authorities improve their business plans by:

- improving the links between issues, trends and priority areas for improvement, and the strategies to deal with them
- improving the definitions of their goals, performance measures and targets
- providing a reasonable number of performance measures
- providing better budget information

*Unnumbered*

**Timing of business plan approval**

We recommend that the Minister approve the Authorities' business plans before the start of the year.

*Unnumbered*

**Regular review of business plans**

We recommend that Authorities review progress in achieving their goals, as set out in the business plan, throughout the year.

## Community Development

None.

## Economic Development

None.

## Environment

*Unnumbered*

**Enhancing the business plan**

We recommend that the presentation of core businesses, goals, performance measures, and key strategic initiatives in the Ministry's business plan be enhanced

*Unnumbered*

**Strengthening the performance measurement initiative**

We recommend that the management of the Ministry's performance measurement initiative be strengthened.

**Recommendation No. 7**

**IRMD planning, monitoring, and reporting**

We recommend that the Integrated Resource Management Division's planning, monitoring, and reporting be strengthened. Performance measurement and reporting should be implemented.

**Recommendation No. 8**

**Financial security for land disturbances**

We again recommend that the Department address the risks related to financial securities for land disturbances throughout the Province.

## Executive Council

**Recommendation No. 9**

**Governance and accountability of Academic Health Centres**

We recommend that Executive Council assign responsibility for implementation of our prior year recommendations that:

- those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres
- the entity or entities responsible for academic health, and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established

## Gaming

**Recommendation No. 10**

**Compensation to gaming operators**

We recommend that the Alberta Gaming and Liquor Commission determine whether compensation rates paid to VLT and casino facility operators represent an appropriate commercial return for services provided.

**Recommendation No. 11**

**Electronic racing terminals**

We recommend that the Alberta Gaming and Liquor Commission improve its management of electronic racing terminal contracts.

## Government Services

**Recommendation No. 12**

**Compliance with the Charitable Fund-Raising Act**

We recommend that the Ministry improve its monitoring of compliance with the *Charitable Fund-Raising Act*.

## Health and Wellness

**Recommendation No. 13**

**Business planning**

We again recommend the Department of Health and Wellness and health authorities implement a joint strategy for improving the implementation of authorized business plans at the beginning of the year.

**Recommendation No. 14**

**Measuring and reporting the performance of the health system**

We again recommend the Department of Health and Wellness, in cooperation with stakeholders, improve the measurement and reporting of the quality and cost of health services.

**Recommendation No. 15**

**Basis of funding**

We recommend the Department of Health and Wellness clarify expectations for funding equipment and assess the merits and risks in providing equipment funding in two different ways.

*Unnumbered*

**Province-wide services**

We recommend the Department of Health and Wellness, in collaboration with the Capital Health Authority and the Calgary Health Region, strengthen accountability for Province-wide services by:

- Ensuring information is reported that compares expected results with actual and explains significant variances
- Establishing relevant and reliable measurement of outcomes

**Recommendation No. 16**

**Physician billings**

We again recommend the Department of Health and Wellness complete a risk assessment of physician billings with reference to section 8 of the *Alberta Health Care Insurance Act* and further develop an examination process for meeting the expectation of the Act.

**Recommendation No. 17**

**System for paying physicians**

We again recommend the Department of Health and Wellness implement strategies that would promote cost-effectiveness as part of the system for paying physicians for their services.

**Recommendation No. 18**

**Contracting for services**

We recommend the Department of Health and Wellness assess reliance on contracted services and improve the control over contracting activity.

*Unnumbered*

**Approving surgical service contracts**

We recommend the Department of Health and Wellness improve the process for approving surgical service contracts issued by health authorities.

*Unnumbered*

**Information systems management**

We recommend the Department of Health and Wellness, in collaboration with health authorities, assess the benefits and risks of the approach to information systems management in the health system and clarify the accountability of the chief information officer for health.

**Recommendation No. 19**

**Reporting financial results**

We again recommend the Department of Health and Wellness improve the reporting of financial results in the Ministry and Department financial statements.

*Unnumbered*

**Performance reporting by PDD Boards**

We recommend the Persons with Developmental Disabilities Provincial Board continue work with community and facility boards to improve performance reporting.

*Unnumbered*

**Canadian Blood Services**

We recommend the Department of Health and Wellness clarify the extent of control over, interests in, and potential liabilities related to the Canadian Blood Services.

*Unnumbered*

**Long-term care facility**

We again recommend the Chinook Regional Health Authority continue to work with the Department of Health and Wellness and Alberta Infrastructure in order to clarify the nature of the Authority's future responsibilities for, and control of, one long-term care facility.

**Recommendation No. 20**

**Surgical service contracting—conflict of interest**

We recommend the Calgary Health Region and Capital Health Authority enhance their conflict-of-interest processes:

- by extending private interest disclosure requirements to senior management who are in a position to influence contract decisions, and
- by using an independent third-party review, as part of a formalized appeal mechanism, when employees operate private practices or clinics that contract with their employers.

We believe this recommendation should apply to all regional health authorities.

*Unnumbered*

**Surgical service contracting—performance standards**

We recommend the Calgary Health Region and Capital Health Authority establish a comprehensive set of outcome-based performance measures for surgical facility services and incorporate these standards of performance into ongoing monitoring of contracted facilities.

*Unnumbered*

**Surgical service contracting—documentation of policies and procedures**

We recommend the Calgary Health Region and Capital Health Authority revise documented policies and procedures to include process changes resulting from the *Health Care Protection Act* and the assessment criteria and guidelines issued by the Department of Health and Wellness.

## Human Resources and Employment

*Unnumbered*

**Computer control environment**

We recommend the Department obtain independent assurance on the control environment of its computer service provider.

**Recommendation No. 21**

**Safeguarding client information**

We recommend the Department:

- review the access that training providers have to client information and limit training providers' access to only the information required to fulfill their responsibilities,
- monitor enquiries to sensitive information to assess whether enquires are appropriate, and
- maintain adequate documentation of the procedures performed to ensure that all client information is returned to the Department and deleted from training providers' systems upon contract completion.

**Recommendation No. 22**

**Skills Development Program**

We again recommend that procedures to monitor compliance by training providers with the terms of the Skills Development Program be improved.

## Infrastructure

*Unnumbered*

**Grant criteria and Minutes**

We recommend that changes to grant criteria be approved in writing by the Minister prior to any grants being paid pursuant to the changed criteria. We also recommend the Ministry keep minutes of meetings to provide evidence of decisions and prevent loss of knowledge that could be useful in other programs.

*Unnumbered*

**Monthly reporting process**

We recommend the Ministry of Infrastructure establish an appropriate monthly reporting process for utility companies to ensure that payments to consumers comply with Ministerial Orders and expenses are properly recorded in the accounts.

**Recommendation No. 23**

**Business case analyses**

We recommend that the Ministry of Infrastructure establish and enforce its requirements for preparing business case analyses, including the preparation of a public sector comparator for partnership projects.

*Unnumbered*

**Cost-benefit analyses and risk assessment**

We recommend the Ministry of Infrastructure ensure the life cycle costs and benefits of partnership arrangements are compared to those of conventional alternatives and the risk assessment process is formalized.

*Unnumbered*

**Long-term leases**

We recommend the Ministry of Infrastructure perform business case analyses of alternatives to long-term leases. Also, the Ministry should ensure that assets, liabilities and expenses arising from its funding arrangements are reported in its financial statements based on the substance of the transactions.

**Recommendation No. 24**

### Deferred maintenance

We recommend that the Ministries of Infrastructure and Transportation take the following actions to ensure that they base their spending decisions on adequate information:

- establish a consistent definition of deferred maintenance
- acquire and use systems that accurately measure the extent and cost of deferred maintenance
- disclose the extent and cost of deferred maintenance in its annual report

**Recommendation No. 25**

### Capital plans

We recommend that the Ministry of Infrastructure continue to implement processes to ensure that capital plans from ministries and client organizations contain information it requires to prepare its long-term strategic plans, as well as the Corporate Capital Overview.

*Unnumbered*

### Systems development decisions

We recommend that the Ministries of Infrastructure and Transportation formalize the requirement for the preparation of a comprehensive business case analysis to support systems development decisions.

## Innovation and Science

**Recommendation No. 26**

### Management of information technology

We again recommend that the Ministry of Innovation and Science, with the cooperation of other Ministries, develop systems to assist in the management of government-wide information technology (IT) services and infrastructure.

*Unnumbered*

### Systems to review government research

We recommend the Alberta Science and Research Authority improve its system to review government science, research and development.

**Recommendation No. 27**

### Systems development

We recommend the Ministry of Innovation and Science establish a systems development methodology that can be used as a source of reference when any systems development projects are initiated throughout government, for both outsourced and in-house systems development.

*Unnumbered*

### Clarification of legislation

We recommend that the Alberta Heritage Foundation for Science and Engineering Research request clarification of the meaning of "real value of the Endowment Fund over the long term."

## International and Intergovernmental Relations

*Unnumbered*

### Metis Settlements performance measures

We recommend that the Ministry of Aboriginal Affairs and Northern Development develop performance measures to report success in developing "accountable, self-regulating, and self-reliant Metis Settlement governments."

## Justice and Attorney General

**Recommendation No. 28**

**Capital asset management**

We recommend that the Department of Justice improve its capital asset management process by completing long-term capital asset plans, and linking this information to the business planning process.

**Recommendation No. 29**

**Fines and costs**

We again recommend the Department of Justice determine the results and costs of its fines collection activities.

## Learning

**Recommendation No. 30**

**Career and Technology Studies**

We recommend that the Department of Learning improve its systems to ensure that school jurisdictions are complying with the requirements of the Career and Technology Studies (CTS) program.

**Recommendation No. 31**

**Long-term capital planning**

We again recommend that the Department of Learning improve its systems to ensure that long-term capital planning for school facilities is consistent with plans for the delivery of education.

*Unnumbered*

**Risk management**

We recommend that the Department of Learning establish a risk management process to improve the effectiveness of its controls and monitoring activities.

**Recommendation No. 32**

**Charter School accountability**

We again recommend that the Department of Learning continue to assist charter schools in developing measurable outcomes so that there is a base from which to measure and evaluate charter school results against their mandates.

**Recommendation No. 33**

**Allowance for assessment appeals and adjustments**

We recommend that the Ministry improve the process used to determine the allowance for assessment appeals and adjustments.

**Recommendation No. 34**

**Timeliness and reliability of data collection**

We recommend that the Department ensure that data from PSIs, used to support funding and program decisions, is promptly collected and is reliable.

**Recommendation No. 35**

**Capital Assets Policy Statement**

We recommend that the Department of Learning, in consultation with the Departments of Infrastructure and Innovation and Science, provide an updated Capital Assets Policy Statement to the public post-secondary institutions.

**Recommendation No. 36**

**Deferred maintenance—critical health and safety risks**

We again recommend that the Department of Learning and the Department of Infrastructure obtain sufficient accountability information from post-secondary institutions to allow the Departments to evaluate the annual progress made towards addressing the critical health and safety risks of deferred maintenance.

| | |
|---|---|
| **Recommendation No. 37** | **Internal control systems – University of Alberta**<br>We recommend that the University of Alberta modernize and significantly improve its control systems. As a first step to improving control, we recommend the University determine the business model to be used in assigning responsibility and authority for implementing and enforcing control processes. |
| *Unnumbered* | **Control procedures at service provider – University of Alberta**<br>We recommend that the University of Alberta obtain an appropriate level of assurance that information technology service organizations are maintaining effective controls to protect the confidentiality and integrity of University data. |
| *Unnumbered* | **Completion of Agreement with service providers - University of Alberta**<br>We recommend that the University of Alberta finalize all incomplete schedules to the Agreement without delay. |
| *Unnumbered* | **Basis of measurement for budget – University of Alberta**<br>We again recommend the University of Alberta adopt a basis consistent with Canadian generally accepted accounting principles for its budget presentation and that the budget encompasses all operating, financing and investing transactions. |
| *Unnumbered* | **Net assets – University of Alberta**<br>We again recommend the University of Alberta determine the level of net assets that will be required to ensure that programs and faculties will continue to be supported. |
| **Recommendation No. 38** | **Internal control systems – University of Calgary**<br>We recommend that the University of Calgary strengthen its internal control systems. |
| *Unnumbered* | **Financial statements – Olympic Oval**<br>We again recommend that the Oval improve its financial reporting to stakeholders by providing information on its assets, liabilities and cash flows. |
| *Unnumbered* | **Contracts - Arctic Institute of North America**<br>We recommend that the Arctic Institute of North America implement processes to ensure that arrangements for services provided to, or received from, third parties are supported by contracts that specify the services to be performed. |
| **Recommendation No. 39** | **Financial processes – Grant MacEwan College**<br>We recommend that the College review its financial processes to increase efficiency and accuracy in financial reporting. |
| *Unnumbered* | **Contracts – Mount Royal College**<br>We recommend that Mount Royal College improve its contract management to ensure that services to be provided are sufficiently detailed in contracts. |
| **Recommendation No. 40** | **Business case analysis and project management controls – Southern Alberta Institute of Technology**<br>We recommend that the Institute improve the business case analysis for major projects and strengthen project management controls. |
| *Unnumbered* | **Conflict of interest policy and Code of Conduct - Southern Alberta Institute of Technology**<br>We recommend that the Institute require annual disclosure of conflict of interest for staff involved in the procurement and project management functions. We further recommend that the Institute obtain conflict of interest disclosure from its contractors and review its code of conduct and ethics policy for contracted project management staff. |

## Legislative Assembly

None

## Municipal Affairs

**Recommendation No. 41**

**Municipal property tax assessments**

We recommend that the Ministry improve the controls designed to ensure that municipal property tax assessments are fair and equitable.

## Resource Development

**Recommendation No. 42**

**Defining performance measures**

We recommend that the Ministry define and use performance measures that evaluate the success of the Ministry over time.

*Unnumbered*

**Improving the year end process**

We recommend that the Ministry improve coordination of the year-end process for creating its performance measures.

**Recommendation No. 43**

**Disclosing royalty reduction programs**

We recommend that the Department disclose its royalty reduction programs in its financial statements.

*Unnumbered*

**Grant recognition policies**

We recommend that the Department account for Rural Gas Co-op grants in accordance with Canadian generally accepted accounting principles.

**Recommendation No. 44**

**Risk analysis and audit strategy for the Production Audit Group**

We recommend that the Board undertake a risk analysis to determine expectations and requirements for its Production Audit Group. Further, the results of the risk analysis should form the basis for a documented audit strategy.

## Treasury

**Recommendation No. 45**

**Corporate government accounting policies**

We again recommend the Department of Finance change the corporate government accounting policies in order to improve accountability.

*Unnumbered*

**Administered funds in ministries**

We recommend the Department of Finance, with the Department of Community Development, deal with unauthorized funds at the Michener Centre Facility Board and coordinate, in conjunction with other ministries, a review of funds of all ministries to ensure compliance with statutory authority.

**Recommendation No. 46**

**Strategies to improve reporting**

We again recommend the Department of Finance promote the benefits of quality financial reporting throughout the fiscal year.

**Recommendation No. 47**

**Results analysis in Measuring Up**

We again recommend the Department of Finance enhance the results analysis in Measuring Up.

| | |
|---|---|
| **Recommendation No. 48** | **Accountability for foregone revenue**<br>We again recommend the Department of Finance identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax system. |
| **Recommendation No. 49** | **Strengthening internal controls – Alberta Treasury Branches**<br>We again recommend internal controls be improved and that all internal controls be documented, evaluated and monitored by management to ensure assets are properly protected and that financial information is accurate and complete. |
| **Recommendation No. 50** | **Internal Audit Department – Alberta Treasury Branches**<br>We recommend internal controls be subject to periodic independent review by the Internal Audit Department to confirm their existence and to verify their effectiveness. |
| *Unnumbered* | **General loan loss allowance – Alberta Treasury Branches**<br>We recommend ATB provide further support for the subjective components of the general loan loss allowance and that further testing be conducted to assess the reliability of the methodology. |

Description of Categories:

| | |
|---|---|
| **Gov.** | Governance (the process that extracts the potential benefits of accountability) |
| **1-2** | Set measurable goals, and responsibilities, and plan how to achieve the goals (including arranging contracted work) |
| **3** | Do the work and monitor progress (including managing contracted work) |
| **4** | Report on results |
| **CWA** | Compliance with authorities |

| | | Category | | | | |
|---|---|---|---|---|---|---|
| **Rec. #** | | **Gov.** | **1-2** | **3** | **4** | **CWA** |
| | **Cross-Government** | | | | | |
| 1. | Standards for business cases | | X | | | |
| 2. | Service level agreements | | X | | | |
| | **Agriculture, Food and Rural Development** | | | | | |
| 3. | Evaluating program success | | | | X | |
| 4. | Evaluation of the Farm Income Disaster program | | | | X | |
| | **Children's Services** | | | | | |
| 5. | Information systems | | | X | | |
| 6. | Improve business plans | | X | | | |
| | **Environment** | | | | | |
| 7. | IRMD planning, monitoring, and reporting | X | | | | |
| 8. | Financial security for land disturbances | | | X | | |
| | **Executive Council** | | | | | |
| 9 | Governance and accountability of Academic Health Centres | X | | | | |
| | **Gaming** | | | | | |
| 10. | Compensation to gaming operators | | | X | | |
| 11. | Electronic racing terminals | | | X | | |
| | **Government Services** | | | | | |
| 12. | Compliance with the *Charitable Fund-Raising Act* | | | X | | |
| | **Health and Wellness** | | | | | |
| 13. | Business planning | | X | | | |
| 14. | Measuring and reporting the performance of the health system | | X | | X | |
| 15. | Basis of funding | | X | | | |
| 16. | Physician billings | | | X | | |
| 17. | System for paying physicians | | X | | | |
| 18. | Contracting for services | | X | X | | |
| 19. | Reporting financial results | | | | X | |
| 20. | Surgical service contracting—conflict of interest | | X | | | |
| | **Human Resources and Employment** | | | | | |
| 21. | Safeguarding client information | | | X | | |
| 22. | Skills Development Program | | | X | | |
| | **Infrastructure** | | | | | |
| 23. | Business case analyses | | X | | | |
| 24. | Deferred maintenance | | | X | X | |
| 25. | Capital plans | | X | | | |
| | **Innovation and Science** | | | | | |
| 26. | Management of information technology | | | X | | |
| 27. | Systems development | | | X | | |

| | | Category | | | | |
|---|---|---|---|---|---|---|
| **Rec. #** | | **Gov.** | **1-2** | **3** | **4** | **CWA** |
| | **Justice and Attorney General** | | | | | |
| 28. | Capital asset management | | X | | | |
| 29. | Fines and costs | | | | X | |
| | **Learning** | | | | | |
| 30. | Career and Technology Studies | | | X | | |
| 31. | Long-term capital planning | | X | | | |
| 32. | Charter School accountability | | X | | | |
| 33. | Allowance for assessment appeals and adjustments | | | | X | |
| 34. | Timeliness and reliability of data collection | | | X | | |
| 35. | Capital Assets Policy Statement | | X | | | |
| 36. | Deferred maintenance—critical health care and safety risks | | | X | | |
| 37. | Internal control systems – University of Alberta | | | X | | |
| 38. | Internal control systems – University of Calgary | | | X | | |
| 39. | Financial processes – Grant MacEwan College | | | X | | |
| 40. | Business case analysis and project management controls – Southern Alberta Institute of Technology | | X | X | | |
| | **Municipal Affairs** | | | | | |
| 41. | Municipal property tax assessments | | | X | | |
| | **Resource Development** | | | | | |
| 42. | Defining performance measures | | X | | | |
| 43. | Disclosing royalty reduction programs | | | | X | |
| 44. | Risk analysis and audit strategy for the Production Audit Group | | | X | | |
| | **Treasury** | | | | | |
| 45. | Corporate government accounting policies | | | X | X | |
| 46. | Strategies to improve reporting | | | X | X | |
| 47. | Results analysis in Measuring Up | | | | X | |
| 48. | Accountability for foregone revenue | | X | | X | |
| 49. | Strengthening internal controls – Alberta Treasury Branches | | | X | | |
| 50. | Internal Audit Department – Alberta Treasury Branches | | | X | | |
| | **Total**[1] | 2 | 18 | 25 | 12 | |

---

[1] Adds up to more than 50 since some recommendations fall into two categories.

# Cross-Government

## Overview

*The success of government depends, in part, on the effectiveness of accountability systems*

The success of government depends, in part, on the effectiveness of the systems designed to assist the Legislative Assembly to hold the executive branch of government accountable. These systems require ministries to prepare business plans and report to the Legislative Assembly annually on the results achieved compared to these plans.

*Central agencies establish and manage systems to support accountability*

Under the current government structure, central agencies with broad corporate responsibilities establish and manage systems to support accountability. For example, the Ministry of Executive Council has responsibility for cross-government initiatives; the Department of Finance (formerly the Department of Treasury) has corporate responsibility for financial management and business planning; while the Personnel Administration Office (PAO) has responsibility for human resource management. Central agencies develop corporate policies, strategies and guidance that establish the range of practices that ministries operate within.

*Working together across ministries is essential*

In addition, the government has recognized that implementing solutions to complex problems requires ministries to work together. It has set out a number of cross-ministry initiatives including, for example, the aboriginal policy, and the children and youth services initiatives. Working together is not limited to major policy issues; working together includes solving administrative problems, implementing multi-user computer systems, sharing knowledge and identifying best practices. Although, cross-ministry thinking is becoming a reality for many government employees, the long-standing tradition of each department and organization operating in virtual isolation of other parts of the government has not been eliminated. The operating alone mindset continues to exist in the government, particularly around budgets. I encourage deputy ministers, under the leadership of the Deputy Minister of Executive Council, to continue to emphasize the need to think and act in a way that recognizes the importance of working together.

*Our cross-government audits focus on corporate accountability systems.*

The focus of our cross-government audits is on the operations of corporate accountability systems. This section highlights issues that, in my view, need to be addressed by a number of ministries or by the government as a whole. In this section, we refer to matters in other sections of the Report that will be of interest to all members of the Legislature and government managers.

# Summary of audit results

## Business plans

*Business plans are improving*

Business plans are the basis for accountability to the Legislature. The government and ministries are making progress implementing our previous recommendations for improving the quality of business plans. However, some ministries could improve their business plans by costing core businesses, linking goals to core businesses and developing targets for performance measures.

## Business cases

*Standards for business cases should exist*

Business cases provide information for planning and decision-making. We examined business cases for a number of significant initiatives and found that they include some components of an effective business case, but are missing other important components. Standards for business cases should be developed to ensure that the best information is available for decision-making.

## Annual reports

*Ministries are improving reporting practices*

Annual reports describe results achieved. Ministries have made progress in developing the framework for an integrated results analysis. Ministries have also provided guidance to accountable organizations on the preparation of annual reports.

## Human resource management

*Performance management systems are being enhanced*

Effective human resource management systems are important for achieving government goals. PAO and Deputy Ministers have made progress in improving the government's employee performance management systems.

## Governance

*A framework for governance of ABCs has been developed*

The work of agencies, boards and commissions (ABCs) contributes to the achievement of government and ministry goals. The government has developed a good framework for the governance of ABCs.

## Shared services

*Shared service agreements are required*

Shared services is an arrangement where one organization provides services, typically administrative functions, to another. In 1998-1999, we identified concerns with shared service arrangements. This year, we reviewed the government's progress in addressing the risks related to shared services arrangements and found that limited progress has been made. Service level agreements that outline the services provided, performance measures and costs need to be developed and signed.

# Business planning

## Background

*The Government Accountability Act requires the preparation of business plans*

The *Government Accountability Act* requires the government to prepare a three-year consolidated fiscal plan and a consolidated three-year business plan. Ministries are also required to prepare a three-year business plan, including revenue and expenditure targets.

*Business plans should include goals, performance measures and results desired for each core business*

The Act requires that business plans include goals, performance measures, and results desired for each core business. The key components of business plans are defined as follows:

- Core businesses are the key activities of an organization.
- Goals are the broad statements of what an organization wants to achieve.
- Performance measures are indicators of progress in achieving goals.
- Targets are the specific desired results for performance measures.

## Government business plan

### Core measures and targets

*Last year we recommended that core measures and targets be more clearly defined*

In last year's Annual Report, we recommended (2000—No. 1) that the core measures and targets in the government business plan be more clearly defined. The brief description of the measure, even when considered with the target, did not clearly convey what was to be measured and how it was to be measured.

*The core measures and targets in the 2001-2004 government business plan are more clearly defined*

The core measures and targets in the 2001-2004 government business plan are more clearly defined. The descriptions of the measures, along with the target, clearly explain what is being measured. The core measures and the targets are now also presented on the same pages as the related key strategies. This makes it easy for the reader to connect the targets and the strategies to achieve them.

The government has implemented this recommendation.

## Ministry business plans

### Costing core businesses

*We previously recommended that the costs of core businesses be reported*

In our 1998-1999 Annual Report, we recommended (1999—No. 3) that strategies be developed to combine ministry core businesses and programs so that ministry income statements clearly present the costs of core businesses. It is a fundamental principle of accountability that information on plans and expected results should be linked to the cost of achieving the results.

*Several ministries were able to cost core businesses*

During the year, guidelines for costing core businesses in ministry business plans were developed. Several ministries identified core businesses and reported the costs of these core businesses in their 2001-2004 business plans.

*Approximately one third of ministries did not adequately link costs to core businesses*

However, approximately one third of ministries did not adequately link costs to ministry core businesses in their plans. Deficiencies included:

- not identifying costs for some core businesses
- presenting cost information for businesses other than the stated core businesses
- not allocating costs, such as ministry support costs, to core businesses

Two ministries reported ministry support functions as core businesses but did not provide cost information for these core businesses. In addition, the statement of core businesses was not clear for some ministries.

*Ministries have made progress*

Ministries have made satisfactory progress in implementing this recommendation but there are opportunities to improve the costing of core businesses in several ministries.

### Linking goals to core businesses

*We recommended that goals be linked to core businesses*

In last year's Annual Report, we recommended (2000—No. 2) that goals be linked to core businesses in ministry business plans. Both the *Government Accountability Act* and government's business-planning guidance require that ministry business plans include goals for each core business.

*The link between goals and core businesses has improved*

The link between goals and core businesses in the 2001-2004 ministry business plans has improved. Approximately 60% of the ministry business plans we examined linked goals to core businesses, compared to 40% last year.

*Several ministries did not link goals to core businesses*

However, several ministries did not directly link goals to core businesses and some goals appeared to address more than one core business. Under these circumstances, it is difficult to link costs to results.

*Progress is being made*

Ministries have made satisfactory progress in directly linking goals to core businesses but further improvement is required.

## Performance measures and targets

*We previously recommended the performance measures and targets in business plans be improved*

In our 1998-1999 Annual Report, we recommended (1999—No. 4) that strategies be developed to improve the quality of performance measures in business plans. In addition, in last year's Annual Report, we recommended (2000—No. 3) that ministries, in conjunction with the Department of Finance, ensure that all performance measures in ministry business plans include clearly defined targets.

*The quality of measures improved but few ministries disclosed the external factors that affect performance*

The quality of performance measures has improved in the 2001-2004 ministry business plans. Approximately 90% of the goals were linked to at least one performance measure, as compared to 80% in 1999. The majority of performance measures were clearly defined and were outcome or output focused. However, only a few ministries disclosed external factors. This information is necessary for a reader to understand the impact of external factors on performance measure results.

*Targets have improved but 20% of the measures did not contain targets*

The quality of targets also improved but several performance measures did not contain targets. Targets for most measures were clearly stated and quantifiable or directional. However, approximately 20% of the performance measures did not contain targets. Further, approximately 20% of the ministries only included targets for 2001-2002 and did not include targets for the last two years of the business plan. Without targets, it is difficult to understand the desired results and assess performance.

*Progress is being made*

Ministries have made satisfactory progress in improving the quality of performance measures and targets in business plans. Ministries should continue to focus on developing targets for new measures and enhancing the discussion of external factors that may affect performance.

## Guidance on best practices

*We recommended that best practices in business planning be stated*

In our 1998-1999 Annual Report we recommended (1999—No. 1) that ministries collaborate with the Department of Finance to articulate best practices in business planning.

*Finance has provided ministries with some guidance on business planning*

Finance has provided ministries with some guidance on business planning. Business planning instructions provided by Finance now include definitions of key business planning terms. Guidelines for costing core businesses in ministry business plans have been developed. Finance also provides advice to ministries on ministry business plans.

*Progress is being made but further articulation of best practices in business planning may be useful*

Finance and ministries have made satisfactory progress in developing best practices. Further articulation of best practices in areas such as linking goals to core businesses, and developing targets for performance measures, may help ministries improve their business plans.

### Ministry business planning processes

*In 1998 we made several recommendations to improve ministry business planning processes*

In our 1997-1998 Annual Report, we made several recommendations to improve ministry business planning processes. The recommendations included:

- Placing a greater emphasis on creating the third year of the government and ministry business plans (1998—No. 1).
- Providing a longer-term context for business planning by setting and communicating longer-term strategies and sharing ministry business plans early in the planning process (1998—No. 2).
- Reviewing targets in the business plans in relation to goals to ensure that they are challenging and attainable (1998—No. 3).
- Providing forecast information on factors that could significantly affect the successful implementation of their business plans (1998—No. 5).

*We have not assessed implementation of these recommendations*

We have not assessed the implementation of these recommendations by ministries. This will require that we examine the business planning processes of individual ministries.

## Business cases

### Background

*Business cases support planning and decision-making*

To meet the goals of government and to improve the delivery of services, ministries make significant decisions to enter into new, complex projects and initiatives. One of the main tools supporting the decision-making process for such initiatives is a business case.

## Audit objective and scope

*Our audit focused on government systems*

Our audit objective was to determine whether the government has systems to ensure that comprehensive business cases are prepared for significant initiatives to support decisions regarding those initiatives.

*We examined business cases for several recent significant initiatives*

We examined business cases for several recent significant initiatives considered by the government, including the cases supporting One Window Access to Services, Alberta SuperNet, various capital initiatives of the Ministry of Infrastructure (see page 152 of this report), and the Alberta Corporate Service Centre. The estimated costs for these initiatives range from $20 million to almost $200 million.

*We did not assess whether the initiatives were appropriate*

We did not assess whether the initiatives are appropriate. We evaluated whether the business cases comply with good practices and include all relevant costs and benefits for making rational decisions.

## Standards

**Recommendation No. 1**

**Standards for business cases**

**We recommend that the Ministry of Executive Council work with other ministries to develop standards for business cases.**

*No standards exist*

Currently, there are no government-wide standards to guide ministries in the development of business cases. The business cases we reviewed include some components of an effective business case, but are missing other important components.

*An introduction should present the history, the decision required and the scope of the case*

In general, a business case begins with a discussion of the history behind the initiative and the need for a decision. All of the business cases we reviewed provide this information. The scope of the business case should also be clearly described, however, this was not done in most of the cases we reviewed.

*The case should outline the project's governance structure*

Particularly where multiple ministries are involved, the governance structure and accountability framework of the initiative should be included in the business case. The importance of developing such frameworks is discussed within several of the cases we examined, however the cases do not directly address who is responsible for the project and who controls it.

*A description of how the initiative supports government goals should be in the case*

A description of how the initiative will support the goals and objectives of the organization should be included in the business case. All of the business cases we reviewed provide a thorough discussion of how the initiatives support the government's goals and objectives.

*Impact and risk assessments should be part of the decision-making process*

Impact and risk assessments should be done early on and presented in the business case to ensure impacts and risks are considered in the decision-making process. Furthermore, any legal, financial or social constraints should be identified. Otherwise, the alternative selected may not be feasible once the impacts, constraints or risks are later identified and are determined to be unmanageable or unacceptable. Impact and risk assessments were not consistently incorporated in the business cases we reviewed. Some of the business cases include risk assessments, complete with mitigating factors. Other cases only mention the importance of preparing these assessments in the future.

*Any assumptions should be clearly stated*

Any assumptions should be clearly stated within the business case, tested, and challenged by senior decision-makers. The majority of cases we reviewed describe effectively the assumptions made to conduct the cost-benefit analysis so that the reader has a sense of the limitations of the analysis.

*All feasible alternatives should be identified*

The next step is to identify all feasible alternatives in an open-minded way such that the status quo is not unreasonably defended or attacked. The status quo should, in fact, be one of the alternatives considered in the case. Current resources or facilities should not rigidly constrain the alternatives. Without in-depth knowledge of the projects, it is difficult for us to assess whether all reasonable alternatives were identified in the business cases we reviewed. Only one of the cases we reviewed included the status quo as an alternative.

*A comprehensive cost-benefit analysis should be prepared for each reasonable alternative*

Most notably, a comprehensive business case should also include a cost-benefit analysis (CBA). The CBA essentially quantifies, wherever possible, the advantages and disadvantages of each reasonable alternative, enabling the decision-maker to identify the optimal alternative. Where outcomes are not quantifiable, they should be assessed qualitatively. The CBAs we reviewed were not comprehensive. In most cases, qualitative costs and benefits were acknowledged in the text but not included for consideration in the CBA. Moreover, in the majority of the cases, the CBA was presented for only the recommended alternative, thus precluding a cost-benefit comparison of all reasonable alternatives explored within the business case.

*The recommendation should be clearly stated and supported*

Finally, the business case should conclude with a clearly stated recommendation, supported with evidence from the business case. The rationale for recommending one alternative, and its advantages over other alternatives, should be clearly presented.

*Final decisions should be documented*

The business case is provided as information to the decision-maker. The final decision requires judgment and consideration of issues perhaps not contemplated in the business case. As a result, there will be times when the decision-maker does not follow the recommendation made in a business case. In these situations, the reasons for the departure should be documented. The explanation is necessary to ensure that the basis for the deviation can be understood, and that any deficiencies in the business case are recognized. For several of the initiatives we examined, the alternative being pursued does not link directly to the recommendation made in the case yet the reason is not clearly documented.

*A post-implementation review should be completed*

Once the initiative is underway, a post-implementation review should be conducted using the business case to confirm that program objectives are being met. This review can also be of value in identifying strengths and weaknesses in the business case for future reference. As most of the initiatives we reviewed have not been implemented, we could not check whether a post-implementation review was conducted.

*Standards will ensure that the best information is available for decision-making*

It is important that standards for business cases exist to ensure the best information is available for decision-making. Incomplete or inadequate business cases may result in resources being inappropriately allocated, or incorrect decisions being made. The projects may also be structured inefficiently because insufficient consideration is given to alternatives.

*Standards should outline the key components of a comprehensive business case*

Standards should outline the key components of a comprehensive business case and include guidance on the development of the case. The standards should recognize that while there are common components to all business cases, the level of detail in a business case depends on the stage of assessment of the initiative. For example, if a strategic decision were required on the initiative, the business case would be at a higher level than for an initiative for which a decision regarding the method of implementation is required. Further, the standards should also acknowledge that business cases for significant initiatives could be developed in several stages.

*The standards should also indicate the types of initiatives that require business cases*

The standards should also indicate what types of initiatives require comprehensive business cases. Consideration should be given to the significance of the investment required and the risks and impacts of the initiative to both government and the public.

*Formal review and approval should also be required*

In addition, the need for a formal review and approval process to be established early in the development of the business case should be highlighted in the standards. This may include specifying the level and type of information that will be required in the business case at each stage. For most of the cases we reviewed, the review and approval processes were unclear. In some instances, this resulted in inefficiencies as approvals were delayed until the necessary information was presented.

*Setting standards will ensure decision-makers have the information required to compare alternatives*

Setting standards for business cases will provide assurance that decision-makers have the information required to determine the most appropriate alternative for significant initiatives. The government has already developed a framework for information technology initiatives entitled "A Cost Benefit Assessment Framework for Information Technology Projects". Although focused on technology initiatives, this document could provide the basis for more general standards and guidance for business cases for other types of initiatives.

# Annual reports

## Government of Alberta 2000-2001

### Consolidated financial statements

*My staff audited the consolidated financial statements of the Government*

My staff audited the financial statements for the Government of Alberta for the year ended March 31, 2001. The results of this examination can be found in the Treasury section of this report on page 251.

### Measuring Up

*We applied specified auditing procedures to the measures in Measuring Up*

We applied specified auditing procedures to the core measures and supplemental information included in Measuring Up for the year ended March 31, 2001. Information on the results of this examination can be found in the Treasury section of this report on page 252.

## Ministries 2000-2001

### Financial statements of ministries and departments

*My staff audited the financial statements of ministries and departments*

My staff audited the financial statements for ministries and departments for the year ended March 31, 2001. The reasons for any reservations of opinion are found in the ministry sections of this report. A summary of the reasons is given in the Treasury section.

## Ministry performance measures

*We applied specified auditing procedures to ministry performance measures*

We applied specified auditing procedures to the performance measures included in ministry annual reports for the year ended March 31, 2001. The results of applying these procedures are described in each Ministry section of this report.

## Integrated results analysis

*Last year we recommended that ministry annual reports include an integrated results analysis*

In our 1999-2000 Annual Report, we recommended (2000—No. 4) that ministries enhance the results analysis in ministry annual reports by providing an integrated analysis of financial and non-financial information.

*It will take a couple years for ministries to do this*

It will take a couple of years to implement this recommendation on a government wide basis because 2001-2002 will be the first year that ministries will report on the costs of core businesses in their ministry annual reports.

*Several ministries have developed the framework for an integrated results analysis*

Ministries have developed a framework for integrated results analysis. Several ministries reported costs for core business and linked goals to specific core businesses in their 2001-2004 business plans. This will facilitate the preparation of an integrated results analysis in 2001-2002 ministry annual reports.

*Ministries have made satisfactory progress*

Ministries have made satisfactory progress in establishing the basis for an integrated results analysis in annual reports.

## Annual reports of accountable organizations

*We recommended the ministries provide guidance to accountable organizations*

In our 1998-1999 Annual Report, we recommended (1999—No. 5) that ministries provide guidance to accountable organizations on best practices for annual report presentation.

*Ministries have provided guidance to significant accountable organizations*

Ministries have provided documented guidance relating to annual report preparation for major accountable organizations such as Regional Health Authorities, School Jurisdictions, and Child and Family Services Authorities. Finance has also indicated that it provides information as requested by ministries.

*This recommendation has been implemented*

This recommendation has been implemented at the government-wide level. We will review of the quality of the guidance provided by ministries to accountable organizations as part of future ministry audits.

# Human Resource Management

*PAO and Deputy Ministers share responsibility for human resource management in government*

The Personnel Administration Office (PAO) and Deputy Ministers share responsibility for human resource management in government. PAO develops corporate strategies and frameworks. Deputy Ministers are responsible for implementation of these strategies and frameworks within departments.

## Employee Performance Management Systems

### Background

*PAO has developed a corporate framework for performance management and Deputy Ministers are responsible for implementing systems that are consistent with the framework*

An effective employee performance management system contributes significantly to the development of staff and ensures individual goals are supportive of department and government goals. PAO has developed a corporate framework to guide performance management practices in government. Deputy Ministers and department managers are responsible for implementing employee performance management systems that meet departmental requirements and are consistent with the corporate framework.

### Employee performance management systems to support organizational goals

*We recommended that PAO and Deputy Ministers improve performance management systems*

In our 1998-1999 Annual Report, we recommended (1999—No. 8) that Deputy Ministers, in conjunction with PAO, ensure that employee performance management systems clearly support government and department goals. We also recommended (1999—page 44) that methods be established to evaluate the effectiveness of these systems both corporately and at the department level.

*The corporate framework and evaluation guide provides a model of good practice in performance management*

PAO and human resource directors updated the corporate performance management framework. They also developed a performance management evaluation guide to help departments examine their systems and ensure that employee performance is linked to department and government goals. In our view, all significant components of a good employee performance management system are encompassed in the corporate framework. PAO and Deputy Ministers have also established corporate processes to monitor the effectiveness of the corporate framework and department performance management systems.

*Pilot projects identified some opportunities for improvement in performance management systems*

The corporate framework and evaluation guide were tested through pilot projects with seven departments in the fall of 2000. The process confirmed what was working well and identified a number of common improvement opportunities, such as the need to strengthen the accountability of managers for performance management, enhance performance coaching of employees, and review employee recognition programs. We also observed that the way that departments develop and assess employees' general skills and abilities, or competence, varies. Some departments do not consider employee competency for employee planning, assessment and development decisions, as recommended in the corporate framework. We realize that there will be variation in department practices but a corporate framework is effective only if it is fully implemented.

*PAO, Deputy Ministers, and human resource directors are working to improve performance management in government*

Continued implementation of enhanced performance management processes is a corporate priority. PAO, Deputy Ministers, and human resource directors are working together to address performance management issues through a number of cross-government working teams and sub-committees. Progress will be reported in the final report on the 2001-2002 Corporate Human Resource Development Strategy and in PAO's annual report.

*Satisfactory progress is being made*

PAO and Deputy Ministers are making satisfactory progress in improving employee performance management systems in government.

---

# Governance

## Background

*There are over 100 significant agencies, boards and commissions*

The Government of Alberta has delegated program and service delivery to over 100 agencies, boards and commissions (ABCs). The ABCs have significant responsibilities and contribute to achieving government objectives. The government sets the policy direction for the ABCs. A board of directors is responsible for governing the operations of each ABC and management provides the required services or programs in accordance with policy direction. The minister, board and management must work together to achieve the goals of the ABC.

## Governance principles for agencies, boards and commissions

*In 1998-1999 we recommended that governance principles be established for ABCs*

In our 1998-1999 annual report, we recommended (1999—No. 9) that the Deputy Minister of Executive Council work with other ministries to set out governance principles for ABCs. We suggested that the governance principles should encompass the following areas:

- Roles and responsibilities of the Minister, board and management
- Approving and monitoring mission, vision and strategy
- Approving and monitoring the entity's ethical values
- Overseeing external communications
- Board appointments and composition
- Appointments and evaluation of senior management
- Setting board performance expectations
- Assessing and reporting on board effectiveness
- Assessing the effectiveness of internal control systems
- Orientation and training practices
- Measuring and reporting entity performance
- Conflict of interest guidelines

*This recommendation was accepted*

The government accepted this recommendation in principle and indicated that governance principles would be considered as part of the Government Reorganization Secretariat's review of ABCs.

*The government's review of ABCs recommends that Ministers and ABCs enter into a Memorandum of Understanding to clarify roles and responsibilities*

The final report of the review of ABCs was recently released. The report recommends that Ministers enter into a Memorandum of Understanding (the Memorandum) with each ABC in their Ministry to clarify the government's expectation in areas such as the roles, responsibilities, and performance expectations to be achieved. The report also recommends that ABCs should undertake an assessment of the effectiveness of their governance and accountability, and where appropriate identify issues that should be addressed in a board governance handbook or the Memorandum. These recommendations apply to ABCs within the government reporting entity.

*The report provides guidance for ministers and ABCs on governance principles to consider when drafting the Memorandum*

The report provides guidance for Ministers and ABCs to consider when drafting the Memorandum and refers to the governance principles outlined in our recommendation. Because of the diversity of ABC responsibility, application of the guidance will vary. The roles and responsibilities of each stakeholder, the government (cabinet and responsible minister), ministers, board of directors (collectively and individually) and chief executive officers, are also outlined in the report to provide context in drafting the

Memorandum.

*The recommendation has been implemented*

The report provides a framework for governance of ABCs within the government. We conclude that this recommendation has been implemented at the government wide level. In the future, we will examine the implementation of this framework in ministries.

---

## Shared services

*Shared services is where one organization provides services to another*

Shared services is an arrangement where one organization provides services to another, typically for administrative functions such as payroll processing services.

*Government has placed an emphasis on shared services*

Recently the government has emphasized establishing shared services arrangements. Shared services was one of the four main cross-government initiatives in 1998-1999. Since that time the number of shared services arrangements has increased significantly.

*In 1998-1999 we recommended that guidelines for shared services be developed*

In our1998-1999 Annual Report, we recommended (1999—No. 10) that the Deputy Minister responsible for the shared services initiative develop guidelines for shared services that mitigate identified risks and provide for the assessment of the cost effectiveness of each arrangement.

*We examined the two types of shared services in government*

In following up the recommendation, we have examined the two aspects of shared services in government: shared services delivered by the Alberta Corporate Service Centre (the Centre) and shared services arrangements between departments.

### Alberta Corporate Service Centre

#### Background

*In October 1999, the government set up the Alberta Corporate Service Centre to improve the cost-effectiveness of delivering administrative service.*

In October 1999, the government set up the Alberta Corporate Service Centre to improve the cost-effectiveness of delivering administrative services. The Centre was established to deliver transaction and processing services to government organizations in the areas of human resources, finance, administration, and information technology. Strategic and governance functions for these areas, such as long term strategy and policy development, were to remain the responsibility of ministries and central agencies.

*The main goal of the Centre was to reduce administrative costs by 20% over three years*

The Centre was established under the Ministry of Executive Council with a Chief Executive Officer (CEO) and a board of directors comprised of Deputy Ministers. The main goal of the Centre was to reduce administrative costs across government by 20% over three years. Other goals of the Centre were to implement consistent processes within government and add value to ministries by allowing them to focus on strategic issues and program delivery. Since 1999, the Centre and ministries have been working on the design and implementation of shared services.

*On April 1, 2000 the Centre began operations and entered into a Memorandum of Understanding with each ministry*

On April 1, 2000, the Centre started with a budget of $1.8 million. During the year, it entered into a Memorandum of Understanding with each Deputy Minister to establish an interim operating arrangement between the Centre and ministries. Each Memorandum defined the resources (staff and dollars) to be assigned to the Centre by the ministry. Ministries and the Centre identified 33 products and services, supported by over 1,100 staff and funding of $134 million, to be assigned to the Centre.

*The expenses of the Centre for 2000-2001 were approximately $2 million, consisting mainly of administrative costs*

The expenses of the Centre for 2000-2001 were approximately $2 million, consisting mainly of administrative costs relating to the core management team of the Centre. This amount was paid by the Ministry of Executive Council during the year and allocated at year-end back to all departments. Ministries paid the costs for the products and services assigned to the Centre during the year.

*The Centre is now a program of the Ministry of Government Services with a budget for 2001-2002 of $138.7 million*

The March 2001 government reorganization moved the Centre to the Ministry of Government Services. The Centre is now a program of the Ministry of Government Services. The 2001-2002 budget for the Centre is $138.7 million, including $4.5 million in management and administration costs. The remaining costs are for direct service delivery, including $9.1 million for the cost of providing services to the Ministry of Government Services. Cost recoveries from other departments, are budgeted for $129.6 million.

## Service level agreements

Recommendation No. 2

### Service level agreements

**We recommend that the Deputy Minister of Executive Council, the Alberta Corporate Service Centre and Ministries take immediate action to develop and sign service level agreements that detail the services to be provided by the Centre, the associated costs and performance measures.**

*Shared service arrangements present risks*

Shared service arrangements present two significant risks to organizations:

- Services will not meet the needs of the recipient organization.
- Anticipated efficiencies are not achieved.

*Agreements need to be in place to mitigate these risks*

Contracts or agreements need to be in place to mitigate these risks. Effective contracts should define roles and responsibilities of each party, compensation, measurable performance expectations and reporting requirements.

*Original plans called for the Centre to have service level agreements in place with all ministries by September 2000.*

Original plans called for the Centre to have service level agreements in place with all ministries by September 2000. This was not achieved. During 2000-2001, the Centre and ministries were focused on agreeing on the products and services and related resources to be assigned to the Centre. This was a challenging and time consuming process, in part, because some ministries lacked information on current service levels and costs.

*The Centre recently signed operating agreements with ministries*

The Centre recently signed operating agreements with ministries for the period April 1, 2001 to March 31, 2002. As of September 14, 2001, the Centre has signed all 25 operating agreements with ministries. The operating agreements provide for the Centre to be the sole service provider for approved products and services and to continue to work with departments to develop the information necessary to prepare service level agreements.

*The operating agreements are not sufficient to mitigate the risks of shared service arrangements*

The operating agreements are not sufficient to mitigate the risks associated with shared service arrangements. These agreements do not identify the specific service requirements of individual ministries, costs for the services provided, and performance measures.

*The Centre and departments must develop and agree on performance measures and costs for services to establish service level agreements for 2002-2003*

The current plan is to replace the operating agreements with detailed service level agreements for 2002-2003. To do this, the Centre and ministries will have to agree on the following:

- identification of unique products and services to be provided to ministries
- performance measures and targets for each product and service to be provided
- base line service level information and costs for the performance measures
- how the performance measures will be determined and reported upon
- the costs for services provided

*The nature and extent of products and services and the roles and responsibilities, and service level standards for these services also have to be finalized*

The operating agreements include a summary list of products and services. The Centre's more detailed Directory of Products and Services is to be approved by deputy ministers on September 26, 2001. The Senior Financial Officers, Human Resource Directors, Administrative Services and Chief Information Officers Councils (the Councils) and the Centre have not yet finalized the roles, responsibilities and service levels for the products and services. These documents were drafted in 2000 and, in some cases, were approved by the responsible Council. However, the operating agreements indicate that these documents still need to be finalized.

*No agreements exist for services provided to organizations within ministries*

In addition to providing services to ministries, the Centre provides services to a number of organizations within ministries such as Child and Family Service Authorities. No agreements exist with these organizations. The operating agreements with ministries include the provision of services to all organizations within a ministry. This is a concern because service recipients are not involved in negotiating for the cost and service levels for the services they receive and therefore do not have the ability to manage their budget. In some cases, Deputy Ministers may not have the authority to encumber the budgets of other organizations within their ministries.

*Clarification of the Centre's governance structure is needed to ensure that an appropriate framework is in place for the development of service level agreements*

The governance of the Centre has changed since it was established. The Centre was created under the Ministry of Executive Council. The Centre is now a program in the Ministry of Government Services and, according to the Centre's latest activity report, the CEO now reports to both the Minister and Deputy Minister of the Ministry. A Deputy Minister Steering Committee was set up when the Centre was established to oversee the operations. The terms of reference of the Steering Committee have not been reviewed since the Centre was transferred to the Ministry of Government Services. We have also been advised that the role of the Councils in the Centre's operations has evolved to a more consultative role. Clarification of the Centre's governance structure is needed to ensure that an appropriate framework is in place for the development of service level agreements with ministries.

*There is a significant amount of work to be done by the Centre and ministries to sign service level agreements by April 1, 2002*

It has been seventeen months since the Centre began operations on April 1, 2000 and limited progress has been made on preparing service level agreements. There is a significant amount of work to be done by the Centre and ministries to sign service level agreements by April 1, 2002, which is the goal stated in the operating agreements. Both parties have to work together to clarify the nature and extent of services to be provided by the Centre, roles and responsibilities, service level standards, base line costs and performance measures. Significant progress will be required in the short-term to ensure that shared services are successful.

*Progress is important since ABCs will be required to use the Centre in 2002-2003*

Progress is especially important since the Government Reorganization Secretariat's Report on the Review of ABCs recommends that agencies, boards and commissions should use the Centre in 2002-2003 unless specifically exempted by the Secretariat. It would be risky for the Centre to assume responsibility for service delivery for several new clients without service level agreements in place.

## Shared service arrangements between departments

**Shared service agreements between departments**

**We recommend that Deputy Ministers review and update shared service agreements for services provided between departments.**

*Before the Centre was established, several departments had shared service arrangements with other departments*

Before the Centre was established, several departments had arrangements with other departments for the provision of services in the areas of administration, finance, human resources and information technology. These arrangements were documented in shared services agreements as required by the Shared Services Directive.

*These agreements may no longer be accurate*

Now that the Centre is delivering services, many of these agreements between departments may no longer be accurate. In some cases, departments were providing services that the Centre now delivers. Several agreements also included the delivery of services that the Centre does not provide such as the strategic support services of a Senior Financial Officer. Departments will continue to provide these strategic support services.

*Agreements should be updated*

The change in services delivered by departments should be reflected in new or amended service agreements. Shared services agreements between departments should reflect the extent of services to be provided, related costs, and expected performance standards, to ensure that the risks related to shared services are appropriately mitigated.

*New departments that share strategic support services will also need agreements*

The recent government reorganization established several new ministries and departments, some of which are now sharing strategic support services. These departments will need to develop shared service agreements.

# Cross-Government audits conducted in specific ministries

The following audits are highlighted in this section because they have cross-government impact.

## Capital asset management

We examined capital asset management practices of the Ministry of Infrastructure, including implementation of the government-wide Capital Planning Initiative. Information on the results of this work is provided in the Infrastructure section of this report.

## Information technology

We reviewed the Ministry of Innovation and Science's progress in developing systems to manage government wide information technology and infrastructure. We also examined the Ministry's systems development methodology and evaluated the development and implementation of two government-wide systems. The results of these audits are in the Innovation and Science section of this report.

## Integrated Resource Management

We reviewed the government's Integrated Resource Management Initiative. Specifically, we examined the governance structure, planning and performance management system of the Integrated Resource Management Division of the Ministry of Environment. The results of this work are reported in the Environment section of this report.

## Financial reporting

We examined the corporate government accounting policies and the financial reporting practices of ministries. The results of these audits are included in the Treasury section of this report.

# Agriculture, Food and Rural Development

## Overview

The Ministry consists of the Department of Agriculture, Food and Rural Development and the following nine agencies:

- Agriculture Financial Services Corporation (AFSC)
- Agriculture Products Marketing Council
- Alberta Dairy Control Board
- Alberta Grain Commission
- Alberta Opportunity Company (AOC)
- Farmers' Advocate
- Irrigation Council
- Land Compensation Board (transferred to Sustainable Resource Development, effective March 19, 2001)
- Surface Rights Board (transferred to Sustainable Resource Development, effective March 19, 2001)

The Department delivers many of its programs by way of grant. For example, in 1999-2000, the Department issued over $450 million in grants to various individuals, businesses and government entities. Although $215 million was paid to AFSC, Alberta Dairy Control Board, and AOC, about $235 million was paid to other Alberta government entities, not-for-profit organizations, businesses, and individuals. The Department needs to manage the risks associated with granting this volume of funds and to ensure that grant programs contribute to the goals and objectives of the Department. We performed a systems audit to assess whether the Department's management systems meet these criteria. As a result, we have suggestions for enhancing the reporting and analysis of grant programs within the Department.

AFSC administers the Farm Income Disaster Program (FIDP) on behalf of the Ministry. FIDP is one of the major expenditures in the Ministry, averaging $82.7 million in payments per claim year for the first five years of the program's existence. Over these five years, we have repeatedly recommended that the Ministry measure the success of this program. This year, we again reviewed the Department's efforts to analyze the effectiveness of FIDP and again have found that there has been inadequate progress in collecting and reporting performance information.

## Scope of work

In addition to the annual financial audits, our staff completed the following work:

- We examined the Department's grant management systems. These systems ensure that grants are properly authorized, disbursed, monitored, and evaluated.
- Since 1995-1996, we have recommended an evaluation for the Farm Income Disaster Program. The Ministry was still at a preliminary stage in developing its evaluation program in 1999-2000. We continued our follow-up in this fiscal year.
- We applied specified auditing procedures to the performance measures reported in the Ministry's 2000-2001 *Annual Report*.

## Managing for results

*Last year we audited the Ministry's managing for results systems*

Last year, we undertook an audit of the Ministry's systems for managing for results. The objectives of the audit were to:

- Identify good practices in the Ministry's planning, reporting, human resource, and governance systems and
- Report opportunities and make recommendations for further improvement to the Ministry's systems.

*We recommended improvements to the Ministry's systems for planning, reporting, human resource management, and governance*

We identified several areas of good practice in the Ministry's systems and made five recommendations for improvement. Specifically, we recommended (2000—No. 5) that the Ministry business plan be enhanced by structuring it around core businesses, each embracing one or more goals, performance targets related to those goals, strategies designed to achieve those goals, and the budget for the necessary resources. Our other recommendations promoted improvements in the Ministry's planning, reporting, human resource and governance systems.

*The Ministry has accepted most of the recommendations but it will take several years to make all the changes*

The Ministry has accepted most of the recommendations arising from the audit and is implementing improvements to their systems. Due to the nature of the systems involved and the timing of the annual business cycle, it will take time for the Ministry to fully implement these recommendations. For example, the Ministry has made changes to the business planning processes that support the preparation of its 2002-2005 ministry business plan. In time, improvements to the performance reporting processes will be established to report against the new business plan.

*The Ministry is making progress*

The Ministry is making progress in addressing these recommendations. We will review the improvements made to the Ministry's systems next year.

## Grant management systems

*The Department recently implemented a new grant process*

In our 1996-1997 *Annual Report*, we recommended that the government establish an accountability framework to measure and evaluate the performance of grant recipients. In response, the government developed a comprehensive framework that includes best practice information to assist departments in their grant processes. Subsequently, the Department approved and issued new grant policies to reflect this new framework. These new policies were implemented in the 2000-2001 fiscal year.

*We examined all phases of a grant's life cycle*

For audit criteria, we followed the government's comprehensive grant framework. Our audit determined that the Department's new grant policies incorporated the essential elements of the framework. We then examined whether grant applications were properly assessed, authorized, and paid. In addition, we examined whether the Department has management systems to monitor and evaluate the effectiveness of its grant programs. Our audit criteria focused on the four phases of a grant: application and authorization, administration and monitoring (through the life cycle of a grant), completion, and post-completion.

*We sampled from ten grant programs*

We chose samples that had been paid and for which, in most cases, completion and post-completion reporting by the recipient had been completed. We randomly selected from ten grant programs for our review. The programs are:

- Farm Income Assistance Program
- Agricultural Societies and Initiatives program
- Irrigation Rehabilitation program
- Municipal Industrial Wastewater Infrastructure program
- Industry Development Funds program
- Agricultural Service Board program
- AESA Farm Based program
- Applied Forage Association program
- Applied Research Association program
- Agri-Food Development program

*Overall, most grant processes were sound*

Our overall conclusion was that the earlier phases of the grant process (application and authorization, administration and monitoring) were sound. Departmental staff have been active in monitoring the grants. The Department's Internal Audit group has also been involved, extensively sampling grants in 1998-1999. We were able to recommend improvements regarding the completion and post-completion phases. We also identified an issue that needs to be addressed regarding financial accounting.

Recommendation No. 3

### Evaluating program success

**We recommend that the Department evaluate the success of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves as well as individual grants within the programs.**

*Many programs have not been evaluated in recent years*

Three of the ten programs that we examined are new and therefore assessments have not yet been performed. Of the remaining seven, we found three on-going grant programs had been evaluated sometime in the past seven years; the other four programs have never been evaluated. The past evaluations that have been conducted focused primarily on satisfaction surveys and the impact of the programs on farming behaviour and farming practices. However, the effectiveness of the programs being assessed and their linkage to Departmental goals were not clearly addressed.

*To evaluate a program's effectiveness, performance measures are required*

To measure a program's effectiveness, the Department should establish quantifiable performance measures. These measures should focus on the outcomes or results of these programs, not just the inputs and outputs related to their administration. These measures should have quantifiable targets that should be compared to actual results. To be effective for management control purposes, these performance measures should be established at the commencement of new programs.

*Most programs have no defined performance measures*

Of the ten programs that we reviewed:

- for the seven older programs, the Department has not established quantifiable measures and targets
- for the new programs, no measures were established prior to the commencement of two of these programs

*Evaluations of individual grants should be completed*

Nine of the ten programs reviewed are conditional grant programs. The Department's policies state that reporting requirements should be defined for each grant. Two types of reporting are required. First, input/output expectations, such as funds spent on eligible expenditures and progress of the project, should be defined. Second, outcomes and results should be covered, indicating to what extent the grant has contributed to program objectives. Grant managers should conduct a post-completion evaluation on each conditional grant. The stated purposes of the evaluation are to assess the performance of the grant recipients and to assess and improve the performance of the Department's grant management team.

*Outcome-related reporting is not consistently required or received*

All nine of the conditional grant programs that we tested required and eventually received input/output information. However, as per their agreements, only six required outcome or results reporting. Our sampling showed that the outcome-related reporting that has been received varies significantly in quality. For example, the final reporting did not compare actual results to the expectations in the original grant application/agreement.

*Evaluation of individual grants supports grant program evaluation*

The Department should evaluate individual grant recipients periodically in order to assess the recipient's performance. Accountability for grants at the individual level is important because it impacts the overall accountability and success of the program.

## Grant accounting

*PSAB defines a standard for grant accounting*

The financial accounting for grants is based on the Public Sector Accounting Board (PSAB) section 3410 dealing with government transfers. The section states that grants should be recognized in the period the events occurred, when the following criteria are met:

- the transfer is authorized
- eligibility criteria, if any, have been met by the recipient, and
- a reasonable estimate of the amount can be made

*There is little further guidance to apply the standard*

These criteria can be difficult to interpret and apply. For example, what constitutes an eligibility criterion is not clearly defined. The difference between a criterion and (say) a condition for payment can generate considerable discussion. There appears to be little further guidance given at the government-wide level.

*There is a variety of practices in applying the standard*

In our audit of the Department's grants, we identified several examples where the imprecision of the PSAB principles led us to revisit the issue of grant expense recognition. For example, the Department has accrued $26,150,000 for the new Industry Development Funds. Agreements with the grant recipients need to be signed and business plans and budgets developed before funds can be disbursed. However, do these requirements equate to criteria for expense recognition, or are they simply payment preconditions? The Department has accrued these expenses based on Ministerial approval and the likelihood that all conditions will be met. The Department's accounting policy is conservative, in that it recognizes expenses as early as possible.

*Other reporting entities could benefit from guidance*

Other Departments and government entities could benefit from a clearer definition of these standards. For example, the Resource Development section of this report contains a recommendation that also flows from the grant recognition issue; see page 237.

*We encourage Finance to provide guidance*

We have encouraged the Department to put accounting for grants on the Finance Department's financial accounting and reporting issues agenda. Finance has overall responsibility for accounting policy within the government family. We feel that guidance from Finance could avert conflicting accounting practices within the government reporting entity. In the Treasury section of this report, the grant reporting issue forms part of the recommendation regarding guidance for government-wide accounting policies; see Recommendation No. 45.

---

## Farm Income Disaster Program

*We have made several recommendations in the past*

In 1994-1995, we recommended that the Department evaluate the effectiveness of its farm income support programs. In 1996-1997, we focused our attention on the Farm Income Disaster Program (FIDP) for the first time. Periodically since then, we have reviewed the Department's progress and found that it had still not developed a framework with which to analyze this program. In 1999-2000, the Ministry undertook an initiative to develop an evaluation framework for FIDP and to complete its first evaluation by December 2000.

**Recommendation No. 4**

**Evaluation of the Farm Income Disaster Program**

**We again recommend that the Department of Agriculture, Food and Rural Development perform annual performance evaluations of the Farm Income Disaster Program (FIDP) to assess the achievement of the program.**

*Inadequate progress has been made*

This year's follow-up has shown that inadequate progress has been made towards this program's evaluation. While the intent was to complete the evaluation by the end of the year, the Department had to reallocate its resources to deliver new programs. This reallocation meant that the FIDP evaluation was not completed as planned. The Department now plans to complete the evaluation by the end of 2001.

*It is important to evaluate the success of this program*

FIDP grant payments have averaged $82.7 million per claim year. The Department needs to place a priority on assessing the effectiveness of this program.

## Alberta Opportunity Company

On Page 54 of our 1999-2000 *Annual Report*, we recommended that the Alberta Opportunity Company (AOC) improve the disclosure of its business practices for managing credit and interest rate risk.

AOC accepted and implemented this recommendation.

## Agriculture Financial Services Corporation

In our 1999-2000 *Annual Report*, we recommended (2000—No. 6) that the Agriculture Financial Services Corporation (AFSC) obtain assurance on the control environment of the outsourced computer service provider.

*Internal Audit will perform a review of controls*

AFSC's Internal Audit group plans to conduct a review of data access and security controls for the 2002 fiscal year. A further review of the control environment at the service provider is planned for the 2003 fiscal year.

We will continue to monitor AFSC's progress on this matter.

## Ministry financial statements

We conducted an audit of the financial statements of the Ministry and Department of Agriculture, Food and Rural Development for the year ended March 31, 2001. My auditor's reports contained one reservation of opinion. Capital assets costing less than $15,000 have been expensed in the year acquired.

## Other entities

Financial statements of the following entities were also completed for the year ended March 31, 2001.

Agriculture Financial Services Corporation
Alberta Dairy Control Board
Alberta Opportunity Company
Crop Reinsurance Fund of Alberta

# Children's Services

## Overview

In the business plan for 2001-2004 the Ministry sets out its three core business as:

- Promoting the development and well-being of children, youth and families
- Keeping children, youth and families safe and protected
- Promoting healthy communities for children, youth and families

The Ministry consists of 18 Child and Family Services Authorities and the Department. The 18 Authorities encompass the different regions of the Province and are the main service delivery units of the Ministry. The Department supports the Minister and the Authorities and co-ordinates Provincial programs, such as Protection of Children Involved in Prostitution, and the Fetal Alcohol Initiative.

*Ministry spent $585 million on services for children, youth and families*

In 2000-2001 the Ministry spent $585.0 million, of which $491.0 million was spent through the Authorities. The following programs are the most significant costs of the Ministry:

- Child welfare - $334 million
- Day care - $64 million
- Handicapped children's services - $56 million
- Early intervention - $27 million
- Prevention of family violence - $12 million
- Family and community support services - $ 38 million

The Ministry received $121 million in revenue, $110 million of which came from the following transfers from the Government of Canada:

- Canada health and social transfer of $93 million
- Child welfare special allowance of $11 million
- Reimbursement for services provided to children normally resident on First Nation reserves - $6 million

*Ministry challenges include the new structure, rising caseloads and insufficient management information systems*

In 1999-2000, the government established the Authorities so that communities could set priorities and develop innovative ways to provide services that best meet the needs of the people in their region. Given that this structure is still fairly new, the Authorities' systems and management practices are still evolving. Also, since Authorities were set up, caseloads have grown rapidly. This has put pressure on the Authorities to shift funds earmarked for preventative programs to child welfare programs. Further, older management information systems, built when the Department delivered programs, have proved to be unable to provide sufficient information. These are some of the challenges of the Ministry that we considered in planning our audit activities that are discussed below.

## Summary of audit results

Last year we identified areas on which the Ministry needed to focus, to enable the Authorities to function more cost-effectively. This year we reviewed the steps the Ministry took. The areas were:

- **Financial management and reporting** – The Authorities' ability to achieve their objectives depends on how well they control costs. To control costs one must first understand them. Systems that provide accurate and relevant financial and management information are needed to provide this understanding. However, it is not good enough to simply report actual spending against budget. Information is also needed on the cost-effectiveness of programs and treatment alternatives. The existing systems need improvement because they provide insufficient information. The Department and Authorities have made progress in improving the systems that provide this information, but more work is needed.
- **Governance** – A board, which is appointed by the Minister, governs each Authority. The board is accountable to the Minister for the cost-effectiveness of the Authority. Conversely, the Minister's success in achieving her goals depends on how well the Authorities are governed. From both perspectives, governance is important. We reviewed the progress being made in developing effective governance systems, given that it will take a number of years to fully implement them. The progress has been satisfactory, but further improvements are needed.
- **Business plans** – The accountability cycle begins with the business plan. The business plan provides direction to Authority management for the coming year. Therefore, a high quality business plan significantly increases the likelihood of success. The Department and Authorities have taken steps to improve business plans, but more work is needed.

## Financial management and reporting

In the 1999-2000 Annual Report (2000—pages 61 to 71), we set out several recommendations to improve financial management and reporting. These were in the following areas:

- Inter-Authority protocol agreement
- Program support services
- Accounting officers
- Business practices and accounting policies
- Banking arrangements
- Expenditure forecasts
- Year-end accounting processes

*Implementation expected to take more than one year*

The recommendations focused on improving support systems to deliver more cost-effective services. We expected that the Ministry would only be able to implement some of the recommendations in the current year. Further implementation will take significant effort by the Ministry. It will also require the support of central agencies such as Alberta Finance and Alberta Corporate Service Centre.

*Progress is satisfactory*

In the following material we discuss the status of our recommendations. We have also identified areas of focus to help the Ministry succeed. Overall, we consider that progress on these recommendations is satisfactory.

### Inter-Authority protocol agreement

On page 61 of the 1999-2000 Annual Report, we recommended that the Department, in collaboration with the Authorities, fully implement an agreement for the recovery of costs incurred by an Authority on behalf of another.

*Recommendation was implemented*

This recommendation has been implemented. The Ministry will continue to improve practice in this area and has recently set up a working group to further refine the practice.

### Program support services

We again recommended in the 1999-2000 Annual Report (2000—No. 7) that the Department of Children's Services and the Authorities examine the support services, including shared services, for opportunities to improve cost-effectiveness. Also, we again recommended that the Department and Authorities enter into service agreements with their service providers.

*Initial step was to better align support services*

During the year, support services were delivered by the Department and Authorities, the Ministry of Human Resources and Employment and Alberta Corporate Service Centre (ACSC). As an initial step in implementing the recommendation, the Ministry, in conjunction with relevant organizations, improved the alignment of these support services with the role of the organization. For example, assets were transferred to the Authorities that use them; the Child Welfare Information System (a central computer system used by all Authorities) was transferred from the Ministry of Human Resources and Employment to the Department of Children's Services; and ACSC took responsibility for the delivery of shared services. As well, a number of incremental steps to improve support services were taken within the various organizations. However much work remains and further steps are planned for 2000-2001.

*Progress on improving cost-effectiveness is satisfactory*

In our view, satisfactory implementation of our recommendation also depends on addressing a number of the other recommendations in this section of the report, particularly those associated with improved cost information. Also, ACSC must finalize its ability to allocate costs to the various organizations in the Ministry (see page 41 of this report for the status of its efforts). Because full implementation depends on the actions of other ministries, and the Ministry has taken significant steps, we conclude progress on the first part of the recommendation is satisfactory.

*Progress on service agreements is unsatisfactory*

Little progress has been made in establishing service agreements. This is due mainly to the overall organizational changes associated with the delivery of shared services in the government. The most significant change is the requirement that certain administrative services be delivered by ACSC, which is the central agency responsible for most shared services delivery. ACSC is working with all ministries to develop service agreements. We have been advised that the Ministry has made representation that ACSC establish separate agreements with each Authority. We endorse this approach. We recognize that the Ministry is limited in its ability to address this recommendation. However, because these administrative services are significant to the overall operation of Authorities and because service agreements have been outstanding for a number of years, we concluded that progress was not satisfactory.

## Accounting officers

On page 63 of the 1999-2000 Annual Report, we recommended that the Department work with the Authorities to establish policy directives to assist accounting officers in the execution of their duties.

*Recommendation was implemented*

The Ministry has developed such a policy. It provides clear instructions to accounting officers on how to handle payments that are not appropriate under the *Financial Administration Act*. We concluded that this recommendation has been implemented.

## Business practices and accounting policies

We recommended in the 1999-2000 Annual Report (2000—No. 8) that the Department work in collaboration with the Authorities to clarify business practices and ensure financial statements comply with Canadian generally accepted accounting principles.

*Ministry has made significant progress*

In last year's discussion supporting the above recommendation, we set out a number of issues that needed to be addressed to implement the recommendation. The Ministry staff, working with ACSC staff, achieved the following:

- Financial statements were based mainly on accounting policies relevant to provincial agencies and not departments.
- Revenue and expenses for inter-entity recoveries and for recoveries of expenses associated with services to First Nation children normally resident on reserves are now disclosed in the financial statements.
- Vacation pay and achievement bonuses are now properly allocated between the Department and the Authorities.
- The practice related to retention of Authorities' surpluses has been clarified. Ministry practice is to adjust current year operating grants, as required, based on spending forecasts.
- Issues related to the accounting and reporting of surpluses held by, and developed under, contracts with private agencies have been resolved. Ministry policy is to report surpluses in the Authorities financial statements if they are significant, and to deposit the recoveries in the Authority's bank account.

*Improvements still needed*

A number of issues have yet to be resolved. These include:

*Defining basis of accounting for the Authorities*

- The basis of accounting for the Authorities' financial statements is still public sector accounting standards and not the more relevant not-for-profit standards. Resolution of this issue depended on an initiative proposed by Alberta Finance. The initiative was delayed. The Department has advised Finance of the need to reach a conclusion on this initiative.

*Allocating ACSC costs*

- The Department financial statements still show all of the costs of services delivered by ACSC without any allocation to individual Authorities. The Ministry agrees with the need to resolve this problem. However, its resolution depends on ACSC developing the information needed to allocate costs. We understand that the ACSC has initiated a process to obtain this information.

*Reviewing the capitalization policy*

- The Department required Authorities to follow a capitalization policy that resulted in material misstatements in two Authorities' financial statements. The Department's policy is the same as that established by the Ministry of Finance for all departments. The Department maintains that its policy is appropriate under the circumstances.

A number of issues have been addressed while others remain to be resolved. We concluded that progress is satisfactory.

*Recoveries of costs for First Nation children resident on reserves*

During this year's audit, we identified that improvement was needed in the management of recoveries of costs for services to First Nation children normally resident on reserves.

Under agreement with the Government of Canada and certain band agencies, the Province recovers certain costs incurred by the Ministry in delivery of services to First Nation children normally resident on reserves. The submission of costs to be recovered is prepared by the Department, based on information from a number of sources such as the Child Welfare Information System (CWIS). For example, in the case of child welfare, an Authority employee must determine and record the status of a child on CWIS. Costs of services provided to this child are also captured on CWIS. Based on the information in CWIS, the Department provides funding to an Authority equal to the costs. This funding is in addition to the Authority's normal operating grant. The Department then uses similar information to prepare the submission to the federal government or band agency.

### Reconciliation of recoveries to payments

**We recommend that the Department of Children's Services regularly reconcile recoveries from the federal government and band agencies to the related payments to Authorities, for services provided to children normally resident on reserves.**

*Large difference to be reconciled*

The Department paid $18.1 million to Authorities to offset costs of services to First Nation children normally resident on reserves. At the same time it recovered $10.2 million. Of this amount, $5.6 million was from the federal government and $4.6 million was from band agencies. The Department should understand the major reasons for the difference to ensure that all eligible expenditures are recovered.

*Reconciliation needs to be part of the Department's regular activities*

There are many reasons for such a difference. For example, the federal government does not reimburse certain costs and may disallow amounts claimed by the Department. Also, there may be a delay in receiving federal government amounts, as these claims may need investigation. We sought explanations for the difference between revenue received and the amount paid to the Authorities by the Department. Initially the Department was unable to adequately explain the differences. At our request, they prepared a reconciliation, which explained the significant differences. The staff advised us that they found the process useful. We acknowledge that the Department employs a number of controls to reduce the risk of lost revenue. However, in our opinion, regular reconciliation of the amounts received from the federal government and band agencies will improve control.

## Banking arrangements

On page 67 of the 1999-2000 Annual Report, we recommended that the Department review the Authorities' banking arrangements and ensure that the needs of Authorities and the Department are met.

*Recommendation was implemented*

Banking arrangements established for Authorities have been clarified. This year, we noted that improvement was needed in the management practices for these bank accounts in most Authorities. This issue has now been solved as well. We concluded that the recommendation has been implemented.

## Cost and results information

We recommended in the 1999-2000 Annual Report (2000—No. 9) that the Department of Children's Services review the funding formula to ensure that the allocation of resources among Authorities is consistent with the expected needs of each Authority. We further recommended that the Department and Authorities obtain appropriate information to assist in forecasting and managing costs.

This year, we followed up on the Ministry's steps to apply this recommendation and we examined a number of systems more closely.

*Department placed a higher priority on financial reporting than financial management*

The Department stated that in the past year they put greater emphasis on improving financial statements. They now plan to more fully deal with items in this area. Nevertheless, we did note progress but we also noted specific areas that need further improvement.

*Better information on costs and results will lead to better decision making*

All levels of staff need better information to meet their obligation to deliver cost-effective services. Decisions made on a case-by-case basis drive the overall costs of the Ministry. Better information on costs and results of alternatives at the case level would facilitate better decisions and thus overall cost-effectiveness. More summarized information at the branch or Authority level would aid planning, policy setting and practice improvement. Better information at the sector level would help the Department to provide advice on the funding needs of the sector and to allocate funds among Authorities.

Because the fundamental issue is the need for better information, we have restated the recommendations as follows:

Recommendation No. 5

**Information systems**

**We again recommend that the Ministry improve its information systems that report the costs and results of services.**

*Ministry has taken steps to improve their systems*

The Ministry has taken steps to act on this recommendation. These include:

- Establishing the Information Management and Technology Business Plan, which included improving the financial and other management reporting capabilities of the Child Welfare Information System (CWIS), and building success-rate information into CWIS. This Plan noted that approximately 30% of expenditures cannot be attributed directly back to an individual case. It also noted that a significant barrier to the Ministry is the lack of timely and accurate information on child welfare expenditures.
- Developing a Financial Practice Review Report, which contains improved cost information. The report shows some comparative information between Authorities such as dollars and percentages of expenditures for specific programs, average cost per case, and demographic information. The report is now compiled monthly and distributed to each Authority. The Ministry's intent is that individual Authorities will review the differences between regions and determine best practices. The Ministry also plans to analyse the report further to draw conclusions on best practices.
- Taking other steps in conjunction with cross-ministry initiatives. These include recommending that the proposed new contract management system and the employee expense claim system allocate costs to cases.
- Establishing the Funding Allocation Model Review Committee. The Committee divided into two sub-committees. The first is looking at the variables used in the population based funding allocation formula. The second is focusing on management practices to determine if lower costs are being achieved in particular regions with different service delivery methods.

*Cost information varied substantially between district offices*

Some organizations have better information than others. This is particularly true of information at the case level. Some Authorities' district offices employ an expenditure tracking system that supports the comparison of budgeted to actual costs at the case level. Other district offices may use spreadsheets, while still others do not collect such cost information. Only limited summary information is available. Summary information that may be useful to management includes average cost per case for a district office or caseworker; average cost per case by the severity of the case, and average cost per a particular service delivery method. One Authority has established a system to provide unit level information and this is being implemented in a number of other Authorities.

*Most cost systems reviewed did not include all significant direct costs*

Most of the costing systems we reviewed did not include all direct costs. Missing costs include social worker time and travel costs. In the cases examined, these costs were likely significant components of the cost of serving the child. Designing systems to include all direct costs for each case will be a difficult challenge for several reasons. For instance, such a practice is not typical in the social services field. Human service workers focus on addressing the problems of those in their care, not on calculating costs. However, good cost information, rooted in the costs of each case, is essential so that limited budgets can have maximum effect.

*Little information is available on the results achieved under different service delivery methods*

Information on costs is available and systems exist to provide it, even if they need improvement. However, very little information exists on the results achieved for services delivered. The absence of such information means that reports focus on cost of services. However, costs are incurred to achieve results. We have reported at the government-wide level that information on costs must be combined with information on results to ensure appropriate assessment of performance. This is also true for information to support specific service and practice decisions.

*Success rate information is not available in a summarized form*

Caseworkers set objectives for each case. Caseworkers and their supervisors monitor the success in achieving these objectives on a regular basis. This success rate information, however, is not summarized to provide information on success by service delivery method or other relevant categories. A summary of success rates in achieving case objectives, grouped by service delivery method, would be useful information for senior management in evaluating the effectiveness of different methods.

*Difficult challenge to define success and service delivery methods*

We understand that defining success and service delivery methods is not an easy task and will involve judgement by social workers and management. Determining a successful outcome may also take a long time. Therefore, systems need to accommodate both short-term measurement of immediate results and longer term, multi-year program evaluation assessments that provide more strategic information. However, in our opinion, it is essential to determine the success rates of different service delivery methods.

*Case files need documentation to show the costs and results of service delivery options, the option chosen and the results achieved*

There is not likely any single system that will meet all the needs of everybody. However, in our opinion, all decisions are grounded in case level information. Case level decisions drive costs. While we heard that caseworkers and caseworker supervisors discussed the costs and benefits of alternative services, we found little evidence of these deliberations in the case files. As an initial step, the Ministry should consider requiring caseworkers to record, in case files, information on costs and expected results of the alternative services considered in a case plan, and results achieved. Recording this information provides a trail that demonstrates that the Authority has served the child in a cost-effective way, aids in case file reviews and provides a continuity of information in case of staff turnover or client disputes.

*Committee recommendations to improve the funding allocation were rejected by Authorities*

The Ministry needs cost and result information to forecast expected costs and allocate funds. One step taken in this direction was the establishment of the Funding Allocation Model Review Committee. It made a number of recommendations to improve the allocation of funds. We have been advised that, since the original funding formula model has not been fully implemented, the Authorities did not support the Committee's recommended changes.

*Funding allocation could be improved*

Our audit work also indicated that the funding allocation model could likely be improved. However, we were unable to reach a firm conclusion since the cost information is deficient.

*Progress*

We concluded that progress on last year's recommendation (2000—No. 9) as originally worded is satisfactory, but have now amended the recommendation.

## Year-end accounting processes

In the 1999-2000 Annual Report we recommended (2000—No. 10) the Department of Children's Services and the Authorities improve their year-end accounting processes in order to produce high quality, accurate and timely financial statements.

*Significant improvements*

The Ministry focused on this area and made significant improvements over the previous year. As a result, all audited financial statements were issued about two and a half months earlier than last year.

*Still some key issues to address*

Financial statements and the supporting information provided for audit were of good quality and in all cases the audit revealed significantly fewer adjustments compared to the previous year. However, a number of issues remain to be resolved, including the following:

- Further improvements are needed in recording accounts payable and accrued liabilities, as adjustments were required for a number of financial statements. Decisions on which accruals to record were sometimes based on the materiality of the amount and the effect on the net results, as opposed to the substance of the transaction.

- Further improvement is needed in the allocation of transactions to the proper organization.
- The inter-Authority balances should be reconciled more frequently.

*Progress is satisfactory*

We concluded that progress was satisfactory.

## Governance

On page 72 of the 1999-2000 Annual Report, we recommended that the Department, in collaboration with the Authorities, improve the systems of governance employed by Authority boards.

*Authorities have made progress*

Improvements in governance would yield significant benefits because boards govern Authorities and most programs are delivered through Authorities. We reviewed the progress that Authorities made to implement this recommendation. The Authorities achieved the following:

- Many Authority boards now formally record in the minutes a motion as evidence of the board's review and approval of the annual budget and three-year business plan.
- Most boards now carry out formal CEO evaluations and some boards evaluate themselves as well.
- Through increased efforts by the Authorities and the Department, the Minister will fill many of the board vacancies with new appointments in September 2001.

*Further progress is needed on:*

A number of other issues have yet to be satisfactorily resolved, although improvement was noted over the prior year in many cases. These include the following:

*Senior management succession plans*

- A few Authorities have completed a formal succession plan for senior management. Several more Authorities have either a draft plan or have had preliminary discussions about a plan, while other Authorities have not looked at the issue.

*Detailed information needs assessment*

- Most Authorities have not completed a detailed assessment of their information needs and the reliability of the systems to provide this information accurately and promptly.

*Procedures to ensure compliance with section 9 of the Child and Family Services Act*

- Many Authorities have not adopted procedures to ensure they meet their responsibilities under section 9 of the *Child and Family Services Act*. Some Authorities have taken some steps, such as a comprehensive review of compliance with local and central policies, standards and guidelines. Other Authorities rely on the CEO to note areas of non-compliance.

*Department has made progress:*

The Department has also made progress in its support of Authorities' governance practices, such as:

*Draft Governance Roles and Responsibilities document*

- Some Authorities have stated that they do not clearly understand their role. The Department has developed a draft *Governance Roles and Responsibilities* document to explain the Authorities' roles and responsibilities. The clarity of this document could be improved by stating the Department's role directly, instead of implying their role through the Authorities' parameters.

*Draft Monitoring Pilot Project*

- A few Authorities have indicated they would like further instruction from the Department on their legislative and regulatory responsibilities. In response, and in addition to the draft *Governance Roles and Responsibilities* document, the Department has developed a draft Monitoring Pilot Project. This project involves detailed reviews of child case files to ensure compliance with legislation and standards.

*Draft Terms of Reference for a Child and Family Services Authority Performance Assessment Working Group*

- The Department has also drafted Terms of Reference for a Child and Family Services Authority Performance Assessment Working Group. The purpose of this group is to develop a consistent process to assess and report on the effectiveness of Authorities and the performance of their Chief Executive Officers.

*Three-year learning plan commencing this fall*

The Department is developing a three-year learning plan for Authority board members. This plan will start with a board orientation seminar in September 2001. Training for the Department initiatives mentioned in the above three paragraphs are part of this learning plan.

*Authority orientation package*

Several Authorities have not developed an orientation package for new board members. Authorities should develop a package starting with the material in the orientation package received in the September 2001 orientation seminar. Then they should customize it for specific issues that may vary by region, such as risks, service delivery initiatives and community stakeholders. An informative package will enable a more efficient transition as new boards are appointed.

*Progress is satisfactory*

Overall, we have concluded that the progress made by the Department and Authorities was satisfactory. In addition to continuing to address the unresolved points we raised last year, we have made the following two additional recommendations for the Authorities to consider.

### Risk management system

**We recommend that each Authority ensure that an appropriate risk assessment is carried out and that they establish a risk management system.**

*Most Authorities have not done a formal risk assessment*

Most Authorities have not done a formal risk assessment. Risks were discussed in board meetings and in the process of developing the business plan. However, without a comprehensive risk assessment, Authorities may not identify all significant risks and therefore may not have appropriate strategies to manage them.

In April 2000 the Canadian Institute of Chartered Accountants, through its *Criteria of Control Board*, issued *Guidance for Directors – Dealing with Risk in the Boardroom*. This document notes that risk assessments go beyond the conventional thinking of risks and now include such items as the culture of an organization and the calibre of its people and leadership.

A comprehensive risk assessment will ensure that all significant risks are considered. It will help to develop an effective business plan with strategies to manage these risks, as part of a risk management system.

### In-camera meetings

**We recommend that Authorities maintain minutes for in-camera meetings.**

Some Authorities did not maintain proper minutes of in-camera sessions or proper minutes as to why in-camera sessions were necessary. Absence of minutes to support decisions creates a business risk that an Authority will not be able to demonstrate appropriate due diligence. Also, as board members change, knowledge of the events and discussion will be lost.

## Business plans

In the 1999-2000 Annual Report we again recommended (2000—No. 11) that the business plans of the Child and Family Services Authorities provide clear links between the social and economic factors affecting service delivery and the attendant strategies to mitigate their effect on service delivery. We also recommended that each Authority develop an appropriate number of performance measures to monitor the effectiveness of services.

*Business plans are key in achieving cost-effectiveness*

Business plans are essential in managing each Authority and they support accountability for achieving cost-effectiveness. Improving Authorities' business plans, and the Ministry's business plan, involves more than just providing clear links between the social and economic factors and their strategies, and using the appropriate number of performance measures.

As a result, we have restated the recommendation as follows:

**Recommendation No. 6**

**Improve business plans**

**We again recommend that the Ministry and Authorities improve their business plans by:**

- **improving the links between issues, trends and priority areas for improvement, and the strategies to deal with them**
- **improving the definitions of their goals, performance measures and targets**
- **providing a reasonable number of performance measures**
- **providing better budget information**

*Authorities have made progress*

Authorities have made some progress in improving the quality of their business plans. For example, even though this is still an area for improvement, their plans had a greater emphasis on outcomes. For 17 of the 18 Authorities, the 2001-2004 business plans were only the third plan that they prepared. Therefore, we expect to see further improvement as Authorities gain experience.

*Department has increased the support it provides to the Authorities*

The Department has made progress in supporting the Authorities in producing their business plans. It has continued to refine the process of providing feedback to Authorities and of approving the business plans. The Department looked at the Authorities' 2001-2004 business plans with a team of reviewers that provided feedback to the Authorities on the content and format of their business plans. This review was more comprehensive than in the past. The detailed checklist completed for each plan considers such items as congruence with the Ministry's business plan and priorities. It also considers many technical items, such as the appropriateness of the performance measures used.

*Definition of core businesses is improving*

A well-structured plan starts with clearly articulated core businesses. In the 2001-2004 business plans, we saw a need to improve the definition of core businesses. However, it is also important that core businesses be aligned between the Ministry plan and the Authorities' plans within the Ministry. Department staff has advised us that for 2002-2005 they have focused on improving the alignment and gaining consensus on the definition of core businesses throughout the Ministry. This step should allow the preparation of more meaningful plans.

*Areas for improvement include:*

As noted, there are areas where business plans could be improved, including the following:

*Improving the link between issues and strategies*

- Improving the links between issues, trends and priority areas for improvement, and the strategies to deal with them. For example, one issue was an increase in the number of cases of Fetal Alcohol Syndrome (FAS). A good example in a business plan noted that the Authority had set up a committee to establish training programs and a training manual to enhance the FAS knowledge of professionals and caregivers. The Authority had also planned a public awareness campaign for FAS. On the other hand, some business plans had vague strategies such as increase public awareness, but no specific action how to increase awareness.

*Improving goals*

- Improving the definition of goals. Goals were often general concepts. More specific definitions related to the activities of the organization would help. A properly defined goal will help in defining appropriate performance measures and targets.

*Improving performance measures and targets*

- Improving performance measures and targets. Many of the performance measures are still dealing with inputs. Targets are generally only for one year. Defining the performance measure in terms of the desired outcome would help. Targets should be for three years, showing the improvements that the strategies are expected to achieve over the time.

*Providing a reasonable number of performance measures*

- Providing a reasonable number of performance measures. Last year, 13 Authorities presented an unmanageable number of performance measures. This year, many Authorities have reassessed the quantity and quality of performance measures. However, nine Authorities have exceeded 25 measures and two have exceeded 50 measures. Having a reasonable number of measures will make it possible to assess progress.

*Providing better budget information*

- Providing better budget information. Most of the Authorities' business plans did not contain budget information beyond one year. They also did not contain budget information by core business. Business plans should provide sufficient budget information to allow the reader to better understand the priorities of the Authority.

### Timing of business plan approval

**We recommend that the Minister approve the Authorities' business plans before the start of the year.**

The business plan is the tool that will guide the operations of an Authority for the year. The Minister is required to approve the plan. This approval represents the agreement between the Minister and the Authority. It is important that plans be approved before the start of the fiscal year. For the fiscal year 2000-2001, this did not always occur.

*Approval of business plans does not always occur before the start of the year*

The 2001-2004 business plans had not been approved four months after the start of the year. We were unable to obtain evidence that one business plan for 2000-2003 received Minister approval and another plan only received approval near the end of 2001 fiscal year.

*Process needed to settle disputes on content*

The Department had reviewed all the plans before the start of the year and provided comments to the Authorities. Therefore, the plans were substantially complete before the start of the year. However, disputes in the content of the business plan should be resolved in a timely manner. This will ensure that the business plan is effective in guiding an Authority's activities.

**Regular review of business plans**

**We recommend that Authorities review progress in achieving their goals, as set out in the business plan, throughout the year.**

Some Authorities regularly review the status of achieving the goals in their business plan during the year. However, many Authorities still do not report on the status of plans in their regular board meetings. Several of these boards have stated they intend to do so in the future.

For boards that do not review the progress in achieving goals, there is a greater risk that the goals will not be met. By reviewing goals on a timely basis, an Authority can help ensure goals are achieved and take corrective action when results are not being realized. This will also help the annual report process, as the board will be aware of successes and areas needing improvement throughout the year.

## Scope of work

In addition to the systems and financial statement audits of the Ministry, Department and Authorities mentioned above, we also completed specified audit procedures on the Ministry's performance measures.

## Ministry financial statements

I conducted audits of the financial statements of the Ministry and the Department as at and for the year ended March 31, 2001, and of the following 18 Authorities:

Sun Country Child and Family Services Authority
Southeast Alberta Child and Family Services Authority
Windsong Child and Family Services Authority
Calgary Rocky View Child and Family Services Authority
Hearthstone Child and Family Services Authority
Diamond Willow Child and Family Services Authority
Ribstone Child and Family Services Authority
West Yellowhead Child and Family Services Authority
Keystone Child and Family Services Authority
Ma'Mowe Capital Region Child and Family Services Authority
Sakaw-Askiy Child and Family Services Authority
Sakaigun Asky Child and Family Services Authority
Child and Family Services Authority – Region 13
Region 14 Child and Family Services Authority
Neegan Awas'sak Child and Family Services Authority
Awasak Child and Family Services Authority
Silver Birch Child and Family Services Authority
Metis Settlements Child and Family Services Authority

My auditor's report attached to the financial statements of the Department and the Authorities contained reservations of opinion with respect to a Departmental accounting practice. Certain information technology, communication, financial and human resource expenses for the operation of the Authorities have not been allocated to the Authorities. For the year ended March 31, 2001, these expenses totalled $16.2 million. Insufficient information was available to determine the amount for each Authority and the Department.

My auditor's report attached to the financial statements of the Child and Family Services Authority – Region 13, and Neegan Awas'sak Child and Family Services Authority, also contained reservations of opinion with respect to another Departmental accounting practice. These Authorities have not capitalized and amortized all capital assets with useful lives greater than one year. They only capitalize assets over $15,000. The other Authorities followed the same Departmental accounting policy. However, their financial statements were not qualified for this policy because the effects on their financial statements were not material.

Other reservations of opinions, contained in my auditor's reports on the Authorities' financial statements, are summarized in the Child and Family Services Authorities section of this report.

In the 1998-1999 Annual Report, we recommended (1999—No. 35) that the Calgary Rocky View Child and Family Services Authority and the Department of Children's Services maintain accounting systems that can be relied upon for the preparation of accurate financial control information.

This recommendation has been implemented.

---

# Child and Family Services Authorities

My auditor's reports on the following financial statements contained reservations of opinion that were specific to the noted Authority.

## Keystone Child and Family Services Authority

My auditor's report attached to the Keystone Child and Family Services Authority's financial statements at March 31, 2001 contains a reservation of opinion resulting from a departure from Canadian generally accepted accounting principles. The Authority's revenues included recoveries that should have been reported in the prior year for children normally resident on First Nation reserves. This resulted in revenues being overstated by $100,483.

## Silver Birch Child and Family Services Authority

My auditor's report attached to the Silver Birch Child and Family Services Authority's financial statements at March 31, 2001 contains a reservation of opinion resulting from a departure from Canadian generally accepted accounting principles. The Authority did not recognize the surplus amounts recoverable from contracted agencies. This resulted in expenses being overstated and accounts receivable being understated by an amount not quantified.

# Community Development

## Overview

The Ministry supports community development mainly through the funding of various initiatives in areas such as social housing, seniors benefits, arts and culture, sports, recreation and parks activities, volunteerism, and maintenance and access to historical resources. The Ministry delivers its programs and services through the Department of Community Development and several foundations, funds, and agent volunteer societies. The Department provides administrative support services to most of the foundations and funds operating within the Ministry.

Total expenses for the Ministry were as follows:

| | |
|---|---|
| 1996-1997 | $209 million |
| 1997-1998 | $308 million |
| 1998-1999 | $369 million |
| 1999-2000 | $458 million |
| 2000-2001 | $489 million |

At the end of the fiscal year, the government announced new ministry structures. As a result, some responsibilities of the Ministry were transferred to the Ministry of Seniors.

Certain Ministry program delivery responsibilities have been delegated to other organizations. The Ministry has entered into contracts with not-for-profit volunteer societies to transfer a significant portion of its operations at the Jubilee Auditoria. The societies are delegated Ministry duties and functions, such as the collection of admission and parkade fees. Surplus funds retained by the societies must be used in future operations or to improve the government's programs or assets.

During 2000-2001, the Ministry was responsible for social housing services. The Ministry also delegates the delivery of social housing programs through 149 entities established under the *Alberta Housing Act*, termed management bodies. The Ministry consolidated financial statements do not include the transactions of the Ministry that are generated by management bodies and volunteer societies. In this section, we comment on this incomplete reporting of the Ministry's operations.

## Scope of work

In addition to the audit of the Ministry's financial statements, we completed the following work:

- specified audit procedures on the Ministry's key performance measures reported in its Annual Report for the year ended March 31, 2001
- audits of the 2000-01 cost-sharing claims under the *National Housing Act* (Canada)

## Reporting entity and excluded operations

In my opinion, the Ministry's consolidated financial statements are incomplete. I believe that providing complete and accurate information about the Ministry's operations is critical to its accountability to the Legislative Assembly and to the public. The Legislative Assembly and the public ought to know the extent of the revenues generated by Ministry assets, the expenses incurred on Ministry operations and the surpluses (net assets) that are available for future use.

The most significant issue is that assets, liabilities, revenues and expenses of the management bodies have not been consolidated into the Ministry financial statements.

The management bodies were established as a means of delivering the Ministry's housing programs. They use the resources of the Ministry and, with certain exceptions, the housing properties are owned by the Ministry through the Alberta Social Housing Corporation. The management bodies' budgets are approved by the Minister, and their operations are governed by Provincial regulations.

Under the *Alberta Housing Act*, the Minister has the authority to direct the operations of the management bodies, and appoint their boards.

The Minister is still responsible for the success of the programs, and the management bodies are held accountable by the Minister for their delivery. In my view, the financial statements of the Ministry are incomplete so long as net assets of approximately $8 million and annual revenues and expenses of approximately $87 million of the management bodies remain unconsolidated.

Also, the Ministry needs to include in its consolidated financial statements, its volunteer society generated revenues and expenses and the surpluses retained by its agents for use in future operations or to improve the government's programs or assets.

It should be noted that the Ministry is complying with Alberta Finance accounting policies in not recording these transactions and their cumulative effect on net assets. In my view, the Ministry's consolidated financial statements are incomplete so long as the management body and the volunteer society generated transactions of the Ministry are not reported.

## Housing assistance

In our 1999-2000 Annual Report, we recommended that the Ministry improve its system to determine housing assistance needs.

We are pleased to report that during 2000-2001, the Ministry made progress towards determining its immediate and longer-term housing assistance needs.

In 2001, the Ministry established a Housing Innovation and Research Unit with responsibility for assessing housing needs across the Province. The Unit has established a database of information on current needs assembled with data from the latest national census, from Canada Mortgage and Housing Corporation (CMHC) and, for information on the homeless, from municipalities. Indicators have been developed which when applied to the database enable the Unit to determine the present seniors, family and special purpose housing needs. Later this year, the Ministry intends to develop a model for forecasting its housing assistance needs.

After the determination of its housing assistance needs, the Ministry's next step according to its Housing Policy Framework (August 2000), is to develop plans, with input from municipalities, to address the quantified needs.

We understand that the development of these plans has progressed very slowly to date because:

- information on needs has not been available until recently and the Ministry has to relate needs to the housing units presently benefiting from government assistance
- the Ministry is presently negotiating with CMHC regarding a transfer of housing assistance responsibilities, the outcome of which is uncertain
- a proposed devolution of housing assistance duties from the Ministry to municipalities is presently under consideration by municipalities

We shall monitor the progress made by government in 2001-02 towards developing its housing assistance plans.

## Internal control environment

In our 1999-2000 Annual Report, we recommended that the Department improve internal controls to ensure that all transactions are properly authorized, and appropriately and completely reflected in the financial records.

We are pleased to report that to the extent that we examined internal controls for the purpose of auditing the financial statements, we did not note internal control weaknesses during 2000-2001.

## Ministry financial statements

I conducted an audit of the financial statements of the Ministry and the Department of Community Development for the year ended March 31, 2001. My auditor's report for the Ministry contained an adverse opinion and my auditor's report for the Department contained a reservation of opinion. The reason for the adverse opinion is discussed above, and the reason for the qualification is that the Department is expensing capital asset purchases.

## Other entities

My auditor's report on the financial statements of the Historic Resources Fund for the year ended March 31, 2001 contained a reservation of opinion for departures from Canadian generally accepted accounting principles because:

- accumulated surpluses of volunteer societies related to the operation of government facilities were recorded as deferred contributions instead of being credited to the fund balance
- capital assets have been expensed and not recognized as assets

Financial audits of the following were also completed for the year ended March 31, 2001.

Alberta Social Housing Corporation
Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Sport, Recreation, Parks and Wildlife Foundation
The Government House Foundation
Human Rights, Citizenship and Multiculturalism Education Fund
The Wild Rose Foundation

# Economic Development

## Overview

*Ministry mission and core business*

The mission of the Ministry of Economic Development is to promote Alberta's continuing prosperity. The Ministry's core businesses are:

- providing strategic leadership for economic development policy and planning
- market development and investment attraction
- tourism marketing and development

The Ministry works closely with the Alberta Economic Development Authority (AEDA), the Strategic Tourism Marketing Council (Council) and the Travel Alberta Secretariat (Secretariat) to coordinate private sector input.

*AEDA*

The AEDA consist of volunteers from the private sector and acts as a high-level policy advisory group to the government concerning key economic development and industry competitiveness issues.

*The Council*

The Council, made up of volunteers from the tourism industry and employees of the Provincial government, establishes the strategic tourism-marketing plan.

*The Secretariat*

The Secretariat consists of a small group of marketing professionals who provide assistance to the Council and are responsible for implementing and coordinating the strategic marketing plan established by the Council.

*Financial results*

During 2000-2001 the Ministry's operating expenses amounted to $50 million. Of this amount, $27 million was for marketing and business development and $19 million was for tourism programs. Marketing and business development includes two significant areas that focus on international trade and international marketing. External revenues, for the year amounted to approximately $1 million.

## Scope of work

In addition to the annual financial audit, we applied specified audit procedures on key performance measures included in the Ministry's 2000-2001 annual report.

## Expenses

Last year we recommended (2000—No. 12) that the Department of Economic Development ensure that expenses and assets arising from new initiatives are disclosed in its financial statements based on the substance of the transactions.

During 1999-2000 the Department entered into an agreement with a contractor to promote Alberta's interests at Expo 2000 in Germany, from June through October 2000. Under the terms of the agreement, the Contractor opened and maintained a bank account for receiving contributions and making payments for this project. This bank account belongs to the Department. In its financial statements, the Department included the transfer of funds into this bank account as an expense rather than as an asset.

*The Department implemented our recommendation*

In the Department's financial statements for the year ended March 31, 2001, it included the transfer of funds into this bank account as an asset and payments made from the bank account as an expense. The Department also recorded contributions deposited into this bank account as revenue. Accordingly, we consider the Department has implemented our recommendation.

## Ministry financial statements

We conducted an audit of the financial statements of the Ministry of Economic Development as at and for the year ended March 31, 2001. The auditor's report contained a reservation of opinion. The reservation resulted from the Ministry not recording all capital assets.

# Environment

## Overview

The Ministry comprises the Department of Environment, the Environmental Protection and Enhancement Fund, the Natural Resources Conservation Board, and the Environmental Appeal Board. The Ministry's mission emphasizes the stewardship and sustainable development of Alberta's renewable natural resources. The Ministry implements its mission through its two core businesses, resource management and environmental hazard management. In 2000-01, the Ministry recorded $135.2 million of external revenue while expending $360.9 million on its businesses.

In pursuit of its mission, the Ministry is responsible for activities as diverse as forest fire fighting, fish and wildlife preservation, environmental standard setting, and monitoring discharges into the air and water. The Ministry is constantly in contact with other Ministries, governments, and private entities as it performs its tasks. Many organizations and individuals are interested in how the Ministry succeeds in its mission. As a result, planning and reporting systems within the Ministry are challenged to serve the needs of many stakeholders. This year, we reviewed the Ministry's system to develop performance measures and commented on the form of the Ministry business plan. We were able to make recommendations that will enhance these processes and products.

In the past few years, we have performed several systems audits and, as a result, have made numerous recommendations to the Ministry. During 2000-2001, we examined how the Ministry has addressed many of these recommendations. In the case of Integrated Resource Management and Regulatory Approvals Systems, we have repeated our earlier recommendations. Our repeated recommendations are reworded as necessary to accommodate changes that have taken place since our original work. In the case of the Financial Administration of Fire Fighting and Delegated Administrative Organizations, the Ministry's progress has been satisfactory and, in some cases, our recommendations have been successfully implemented.

## Scope of work

In addition to the annual financial audit of the Ministry and Department of Environment, the following work was completed:

- At the invitation of the Deputy Minister, we examined the Ministry's performance measurement initiative. This led us to review the form of the Ministry's business plan.
- We followed up progress on our 1997-1998 recommendation that performance measures be identified to assess the contribution of the Integrated Resource Management initiative.
- We followed up progress on our 1998-1999 recommendations regarding the Department's financial administration of fire fighting.
- We followed up progress on our 1998-1999 recommendation that the Department implement the Financial Security Risk Assessment Model.
- We followed up progress on last year's recommendation that the Department fully implement and continue to refine its system for monitoring its Delegated Administrative Organizations.
- We monitored progress related to the fish management recommendation from last year's *Annual Report*. As the recommendation dealt with the business planning cycle, the Department will not be able to implement our recommendation until 2001-2002. We will report the status of this recommendation in detail next year.
- We applied specified auditing procedures to the performance measures that will be presented in the Ministry's *Annual Report*.

## Ministry measures and plans

*We were asked to review the performance measurement system*

Since December 1999, Environment has been developing a performance measurement and indicator system. The Deputy Minister asked the Auditor General to examine this initiative and provide suggestions for further improvement.

*The scope of our review*

We reviewed the process used to create the new performance measurement and indicator system, as well as the measures and indicators themselves. The Ministry's performance measurement framework is closely linked to business planning. Performance measures should indicate whether an entity is progressing towards its stated goals, which are a foundation for an annual business plan. As a result, our examination included a review of the Ministry's draft "Business Plan 2001-04." The draft closely resembles the final version published in *Budget 2001*.

*Environment's business plan is unique*

A great deal of research and thought has gone into the Ministry's performance measurement and business planning initiatives. Many aspects of Environment's business plan are unique. While vision, mission, core values and core business sections are familiar to business plan readers, elements such as goals and performance measures are quite different in their articulation.

*Environment's goals are "generic"*

The goals listed in the plan can be termed generic. They would apply to any organization that has regulatory responsibilities. They include basics such as "establishing a framework (policies, legislation, plans, guidelines and standards)" and "information and knowledge for making appropriate decisions." Other ministries' goals tend to be specific to their business and often reflect the important issues of the day.

*Three levels of performance measure are used*

Environment has developed a hierarchy of performance measures. At the highest level, outcome-oriented performance measures are classified as Environmental or Behavioural Indicators. "Environmental Indicators report on the state of Alberta's environment," while "Behavioural Indicators report on the way we behave toward the environment." At the operational level, the business plan describes (but does not present the statistics for) numerous internal performance measures.

### Enhancing the business plan

**We recommend that the presentation of core businesses, goals, performance measures, and key strategic initiatives in the Ministry's business plan be enhanced.**

*Core business should be clearly defined*

The Ministry's core businesses of resource management and environmental hazard management are mentioned in the business plan, but not defined. Readers who are not familiar with the Ministry's businesses will find definitions useful. For example, the definitions included in the Ministry's 1999-2000 *Annual Report* make it clear that activities as diverse as environmental standard setting, ambient monitoring, climate change, and fire fighting are included in the Ministry's mandate.

*Public policy goals should be included*

In addition to its generic goals, the Ministry should also define its public policy, outcome-related goals. Within the draft business plan, the Ministry's public policy goals are only described as "sustainable development"; some further definition would be useful for readers. Environment's public policy goals could be presented in the "Ministry Businesses, Goals, Key Results and Measures" section of the plan. In that way, the Ministry can preserve the generic goals in its plan while tying the Environmental and Behavioural Indicators to the Ministry's public policy purpose and core businesses.

*Indicators should be linked to the Ministry's goals*

The ten Environmental and Behavioural Indicators are currently linked to the government's goals, not to the Ministry's. The business plan says that the Ministry "works to influence these indicators." We were told that the business plan does not link the Indicators to Ministry goals because the Ministry does not control these results. While the Ministry may not control these results, it is still broadly accountable for high-level environmental outcomes. With the ten indicators linked to goals, a reader will be able to assess the Ministry's success.

*Two types of Key Strategic Initiatives, requiring separate monitoring*

The plan's Key Strategic Initiatives contain two types of activity: one-time projects and ongoing, routine business. External readers of the business plan are interested in a ministry's major policy initiatives, which are often driven by one-time projects. It is through these major initiatives that ministries address the significant issues of the day. On the other hand, internal users appreciate seeing how their work contributes to the organization. Many employees contribute to ongoing routines and do not play a role in the one-time projects highlighted in the business plan. In the Key Strategic Initiatives portion of the plan, the balance between the two types of initiative can be enhanced. In particular, few results or management checkpoints describe how progress towards one-time projects will be measured. Targets, results, and management checkpoints should be created to provide accountability for one-time projects.

### Strengthening the performance measurement initiative

**We recommend that the management of the Ministry's performance measurement initiative be strengthened.**

*A central group coordinates the performance measurement initiative*

To implement the performance measurement initiative, the Ministry established a central coordinating group. This group has been instrumental in organizing the initiative, supporting operational colleagues, and collecting and compiling the final product. It is the operational staff who will collect and forward performance data for assembly in the Ministry's *Annual Report* and other internal documents. Strong central management lays the foundation for cooperation and participation by participating stakeholders. It also ensures that effective products are delivered on time and on budget.

*Management can be improved*

We noted that several aspects of the performance measurement initiative can be improved. For example, there did not appear to be a project plan or timeline for this initiative. We found through our interviews that instructions from the central group to the operational staff who are expected to support the initiative were not always documented or clear. Responsibility for some checkpoints (i.e. which individual within the Ministry should collect the data) was not clear. As a result, data collection systems are often not yet ready to produce the required summary information.

*Documentation should be enhanced*

Documentation of the Ministry's performance measurement initiative can be strengthened, including at the central coordinating level. For each indicator or checkpoint, a summary sheet describing the measure, the data collection system, and other essential information should be prepared by operational staff and filed with the central group. We found that summary sheets were not complete. Of the total of 50 indicators and checkpoints, we could not locate 20 summary sheets that should have been filed with the central group. Many of the 30 summary sheets that we did review were not completely filled out. Based on incomplete documentation, it will be difficult to track the evolution of decisions.

---

## Integrated Resource Management (IRM)

*The IRM concept has been evolving since the 1970s*

IRM is a comprehensive approach to resource management decision making. It recognizes that the use of a resource for one purpose can affect the use and management of other resources. It involves the integration of decisions, policies, programs, and activities so that long-term benefits to society are optimized, and conflicts between competing stakeholders minimized. The IRM philosophy evolved in the 1970s to address conflicts between resource stakeholders such as agriculture, oil and gas, and forest companies, the public, and government entities. As we noted in our 1996-1997 *Annual Report*, the government was planning to develop a Province-wide integrated policy direction.

*The Commitment sets the strategy*

In 1999, *Alberta's Commitment to Sustainable Resource and Environmental Management* was published. The *Commitment* "sets out (the government's) strategy" for "the wise management of Alberta's natural resources and environment…now and in the future." The *Commitment* notes that "strong provincial direction is required to ensure consistency in approach." The Deputy Minister-level Sustainable Resource Development Committee is responsible for delivering results from this strategy.

*The Implementation Committee is responsible for the Implementation Plan*

To translate the *Commitment's* strategy into action, the government created an inter-departmental, Assistant Deputy Minister-level Integrated Resource Management Implementation Committee in 1999. The Implementation Committee has approved an Implementation Plan. The Implementation Plan describes and allocates tasks that will fulfill the strategies outlined in the *Commitment.*

*IRMD has a governance structure and produces IRM products*

The Implementation Plan requires the efforts of a dedicated group of people. This dedicated group evolved into the Integrated Resource Management Division (IRMD) within the Department of Environment. A governance structure was created for IRMD; the Division reports through its Director to the Implementation Committee. In November 2000, the Implementation Committee endorsed an "Operations Plan" that is specific to IRMD.

*A sampling of IRMD's accomplishments*

IRMD has delivered many products in its two years of existence. These deliverables have flowed from the Implementation or Operations Plans and represent a contribution to the sustainable development initiative in Alberta. A sample of significant accomplishments includes the document "Highlights of Integrated Resource Management in Alberta—Year 2000," the IRM workshop held in September 2000, the IRM Newsletter, and the "Terms of Reference" and "Interim Report" related to the Northern East Slopes Sustainable Resource and Environmental Strategy.

*The scope of our work*

Well-functioning management systems are a strong indication that intended results will be accomplished. In this case, IRMD's systems impact the division's ability to deliver quality products, and IRMD's products should directly impact the Province's sustainable development objective. To provide insight into IRMD's effectiveness, we examined selected management systems such as IRMD's governance structure, project management, and performance measures.

**Recommendation No. 7**

**IRMD planning, monitoring, and reporting**

**We recommend that the Integrated Resource Management Division's planning, monitoring, and reporting be strengthened. Performance measurement and reporting should be implemented.**

*Ministries need strong representation in the IRM initiative*

The *Commitment* document calls for a government-wide initiative to establish sustainable development within the Province. Stakeholders have affirmed that, to succeed, the IRM initiative must be seen to be a multi-ministry program. To preserve the multi-ministry nature of the IRM initiative, strong participation and leadership by the governance body are required.

*The role of the Implementation Committee*

The terms of reference for the Implementation Committee define membership, roles and responsibilities. Members are accountable to both their own departments and the Implementation Committee chair. Accountability includes making departmental needs known to the chair, preparing an implementation plan for the IRM initiative as a whole, and reporting to the Sustainable Development Coordinating Committee. As a major part of its responsibilities, the Implementation Committee endorses the plans, outputs, and reports of the IRMD.

*The Implementation Committee should be more proactive*

The Implementation Committee meets at the request of the IRMD Director or when other activities of the IRM initiative require it. To the date of our examination, the Implementation Committee had met about twice a year. The Implementation Committee should be more proactive in ensuring the accountability and success of the IRMD. For example, the overall IRM Implementation Plan served as IRMD's guide for the first 18 months of its existence. However, the Implementation Plan does not contain enough detail regarding resources, deliverables, and timing to ensure accountability for IRMD. The Committee should have pressed earlier for the IRMD "Operations Plan" that was eventually endorsed in November 2000. In addition to the "Operations Plan," the Implementation Committee can also be instrumental in requiring, defining, and reviewing risk analyses, performance measures, and annual reporting for IRMD.

*An annual Operations Plan should be prepared and approved*

At the beginning of each fiscal year, IRMD should prepare and the Implementation Committee should approve an annual "Operations Plan." The approval would clarify the scope and expectations for IRMD. Should significant amendments to scope be required after the "Operations Plan" has been approved, then those changes should also be presented to the Implementation Committee for approval. The approved "Operations Plan" would provide a baseline against which to monitor IRMD's results.

*An annual risk analysis should be completed*

IRMD should identify and analyze the major risks that may impact its success. Major risks include resource constraints and the ability of other government or private entities to deliver required inputs. Once major risks have been identified, IRMD should analyze how likely each risk is and how extensively each might impact the project. With that analysis completed, IRMD can develop risk mitigation strategies. Adjustments to the "Operations Plan" may be required if risks turn into reality. The choice of available actions typically includes a change in scope, a change in timelines, the reassignment of resources, or an impact on the quality of deliverables. It would be the Implementation Committee's responsibility to decide which alternative to pursue.

*IRMD should prepare an annual report*

On behalf of the Implementation Committee, IRMD has prepared an "Annual Report on the Implementation of Alberta's *Commitment*." While this report is necessary for the IRM initiative as a whole, it is not detailed enough to serve as IRMD's own accountability report. IRMD should report against its "Operations Plan" in sufficient detail to account for its deliverables, costs, and critical timelines. This information would also be important in preparing the following year's "Operations Plan," by highlighting issues and risks that need to be addressed.

*We have raised the issue of performance measures in the past*

In 1996-1997, the Auditor General recommended that performance measures be created to gauge the progress of the IRM initiative in government. Since that time, the recommendation has been repeated (1998—No.23) and followed up (2000—page 161). IRMD's "Operations Plan" proposes a suite of measures and one of the Plan's strategies calls for the development of performance measures for the government as a whole.

*Further work is required to make performance measurement reporting a reality*

However, this suite of measures needs to be more clearly defined, then compiled and reported. For most measures in the suite, what will be measured, the unit of measure to be used, and the source of data still need to be defined. The frequency of data collection and reporting also needs to be defined. Where measures and data sources have been defined, available data has not yet been systematically collected. How these outcome measures will be reported, to whom they will be distributed, the format for presentation, and frequency of data collection and reporting should be defined. These decisions should be made in the context of who will use the resulting measurements and what decisions will be made as a result of receiving this information.

## Financial administration of fire fighting

*Following up our fire fighting recommendations from 1998-1999*

In 1998-1999, we made three numbered recommendations (1999—Nos. 27, 28, and 29) in our *Annual Report* regarding the financial administration of forest fire fighting. In addition to our numbered recommendations, the Department received two unnumbered recommendations from us and dozens of other fire fighting-related recommendations from internal operational reviews. To give the Department time to implement changes, we waited until this year to follow up progress against our recommendations.

*Fire fighting budgets and legislative approval*

Recommendation No. 27 encouraged the Department to budget for the expected annual fire fighting costs based on the most current information. Further, it recommended that the fire fighting budget be subject to legislative approval, including approval for any supplemental estimates required during the year.

*The Department is making satisfactory progress*

The Department is making satisfactory progress in implementing this recommendation. In the 2001-02 budgets for the Ministry of Sustainable Development (now responsible for fire fighting), the base fire fighting budget is approximately $75 million. This includes operating and capital components and is a much more reasonable base than was budgeted in past years. $63 million of the $75 million flows through the Department's vote; the remaining $12 million is funded from the Environmental Protection and Enhancement Fund. Any expenditure in excess of the $75 million will also flow through the Department's program as a supplementary estimate. The Ministry is still working on how to flow all funding through the Department and how to report all fire fighting expenses in a consolidated format. We will continue to monitor this recommendation.

*Rationalization of regional business plans*

Recommendation No. 28 encouraged the Land and Forest Service of the Department to ensure that its strategies, goals, and processes were effectively implemented through regional business plans and operations.

*Rationalization will be addressed by a new Ministry*

The initiative to implement this recommendation was curtailed due to internal and government-wide reorganizations. Within the Department of Environment, Service-level business plans were replaced by one Department-level business plan. While that process was in evolution, the responsibility for fire fighting was shifted to a new Ministry, Sustainable Resource Development. Whether and how the new Ministry will use regional business plans has not been decided. As a result, our original recommendation is no longer valid. We will monitor how Sustainable Resource Development addresses Province-wide consistency in its business planning.

*Contract management*

Recommendation No. 29 encouraged the Land and Forest Service to refine its contract management processes.

*This recommendation has been implemented*

The Department created a Contract Manual and has offered training in contracting matters to its employees. Training includes materials on cost-benefit analysis and how to consider qualitative matters during the analysis. While many of these skills are still evolving, the Department is now in a position to apply the techniques that we discussed in our recommendation. The Department has implemented this recommendation.

## Regulatory approvals systems

*The Financial Security Risk Assessment Model will not be implemented*

In our 1998-1999 *Annual Report*, we recommended (1999—No. 30) that the Department implement the Financial Security Risk Assessment Model. The Model addressed our concerns regarding the process for determining the amount and type of financial security for projects that could cause an adverse impact on the environment. In our 1999-2000 follow up, we found that the Model had been rejected by Department executives. This has caused us to restate our recommendation.

**Recommendation No. 8**

**Financial security for land disturbances**

**We again recommend that the Department address the risks related to financial securities for land disturbances throughout the Province.**

*The risks that we identified have not been mitigated*

Since the demise of the Financial Security Risk Assessment Model, the Department has not implemented a consistent regime throughout the Province. In general, the Department requires companies to post security equal to the full cost of recovering the public land that they will disturb. However, there are a few large land-disturbing industries (oil sands and coal mines) that are not charged full cost. These industries are negotiating with the Department to establish levels and types of security that are acceptable to both parties. No final solution appears imminent. Progress against the intent of our 1998-1999 recommendation has been unsatisfactory.

---

## Delegated Administrative Organizations (DAOS)

*Environment relies on six DAOs to deliver programs*

The Minister of Environment has delegated the operation of certain programs to independent DAOs. The six DAOs that conduct Environment business are the:

- Beverage Container Management Board
- Alberta Used Oil Management Association
- Forest Resource Improvement Association of Alberta
- Tire Recycling Management Association of Alberta
- Alberta Professional Outfitters Society
- Alberta Conservation Association

*Monitoring system for DAOs*

Because the programs delegated to DAOs are important to the success of the Ministry, Department staff should perform routine, documented reviews of these arrangements. In last year's *Annual Report*, we recommended (2000—No. 14) that the Department of Environment fully implement and continue to refine its system for monitoring its Delegated Administrative Organizations.

*The recommendation has been implemented*

The Department's system is now in use by all six managers who monitor these DAOs. Some managers have worked with the system more extensively than others, but experience is accumulating. The implementation of risk analysis in monitoring these DAOs will also take time to evolve, but the Department's managers are beginning to introduce it into their annual reviews. The Department has implemented this recommendation.

## Ministry financial statements

We conducted an audit of the financial statements of the Ministry and Department of Environment for the year ended March 31, 2001. My auditor's reports contained four reservations of opinion that resulted from the Ministry and Department following the corporate government accounting policies and reporting practices as established by the Finance Department:

- A provision for the future costs of site restoration has been recorded for the Swan Hills waste treatment plant. However, numerous other sites exist where the Ministry is responsible for site restoration but no liability has been recorded.
- Capital asset purchases under $15,000 have been expensed in the year acquired.
- Consumable inventory has been expensed when purchased and has not been recognized as an asset.
- The results of a discontinued operation were not reported separately for the current and prior periods.

## Other entities

Financial audits of the following were also completed for the year ended March 31, 2001. Our auditor's report for the Fund contained a reservation of opinion that resulted from the Fund's following the corporate government accounting policies and reporting practices established by the Finance Department. The auditor's report itself should be read for full details of the reasons for the reservations. The Board's auditor's report was unqualified.

Environmental Protection and Enhancement Fund
Natural Resources Conservation Board

# Executive Council

## Overview

The Ministry is responsible for coordinating and implementing the government's overall agenda including policy coordination, administrative support, and communication.

The Ministry of Executive Council includes:

- Office of the Premier/General Administration
- Office of the Lieutenant Governor
- Public Affairs Bureau

*During the year, the Ministry also included the Alberta Corporate Service Centre*

During the year, the operations of the Ministry also included the Alberta Corporate Service Centre (ACSC). ACSC was established to deliver common services to government organizations in the areas of human resources, finance, administration, and information technology. In 2000-2001, the activities of ACSC were focused on developing and implementing processes for delivering services to ministries. Total start up costs for ACSC were $2.5 million, including $2.0 million paid by the Ministry and $0.5 million paid directly by other ministries. The Ministry also received $2.0 million from other ministries to recover the expenses paid for ACSC. Responsibility for ACSC was transferred to the Ministry of Government Services in the March 2001 government reorganization.

*The ministry's total expenses were $15.7 million*

The Ministry's expenses in 2000-2001 comprised:

| | 2000-2001<br>(in millions of dollars) |
|---|---|
| Office of the Premier/General Administration | $ 4.7 |
| Alberta Corporate Service Centre | 2.0 |
| Public Affairs Bureau | 9.0 |
| Total | $ 15.7 |

Revenues of the Ministry, mainly from the Queen's Printer Bookstores were $1.8 million.

*Academic health recommendations repeated*

In this Executive Council section we repeat recommendations concerning academic health, previously reported under the Ministry of Learning, because it is unclear who should be responsible for implementing them.

## Scope of work

In addition to the annual financial audit, my staff completed the application of specified auditing procedures to performance measures reported in the Ministry's 2000-2001 annual report.

---

## Council of Academic Health Centres of Alberta

### Governance and accountability

Recommendation No. 9

**Governance and accountability of Academic Health Centres**

**We recommend that Executive Council assign responsibility for implementation of our prior year recommendations that:**

- **those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres**
- **the entity or entities responsible for academic health, and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established**

*Recommendations repeated*

I addressed these recommendations to the Ministry of Learning in my 1998-1999 Annual Report (1999—Nos. 18 and 19) and to the universities of Alberta and Calgary in last year's Annual Report (2000—No. 39). In both years the government accepted the recommendations. I am repeating them again because we have evidence of only limited progress in addressing the major risks in academic health.

*Academic health is a partnership*

Academic health centres are partnerships of medical faculties, health authorities, and academic physicians. They educate health professionals, conduct health sciences research, and provide specialized clinical services. The Council of Academic Health Centres of Alberta (the Council) consists of the two vice-presidents (academic) and the two deans of medicine at the universities of Alberta and Calgary and the CEOs of the Capital Health Authority and Calgary Health Region and the Alberta Cancer Board. The ministries of Health and Wellness, Innovation and Science, and Learning provide the bulk of funding. These ministries together with the members of the Council represent the major stakeholders in academic health.

*Academic health faces serious risks*

In our 1998-1999 report we stressed the serious risks faced by the academic health centres:

- lack of understanding among stakeholders of the scope of academic health and lack of transparency of funding
- lack of information on the financial status of the centres
- inequities in physician remuneration
- dependence on external funding of activities that generate administrative infrastructure costs

We estimated the total 1997-1998 cost of academic health at $350 million, 70% of which was ultimately funded in various ways by the Province. Accountability for the use of this substantial amount of public funds is seriously lacking.

*Some issues have progressed*

The faculties are piloting alternative plans for compensation of faculty members in cooperation with ministries. These plans have the potential to mitigate physician remuneration risks.

We were informed that the Council made proposals concerning governance and structure to the universities. The universities have not yet responded.

*No one has assumed leadership*

Further progress requires stakeholders to agree on who is accountable for what. They are aware that the issues are complex and urgent. But no one has assumed leadership. The Council is merely an advisory body. Last year I agreed that the universities were the most appropriate bodies with the requisite authority. However, the universities say it is the ministries' responsibility because they decide the funding mechanisms.

Accordingly, in the interest of resolving the impasse, I am addressing this recommendation to all stakeholders through Executive Council.

## Ministry financial statements

*My auditor's report on the Ministry financial statements contained a reservation of opinion*

I audited the financial statements of the Ministry of Executive Council for the year ended March 31, 2001. My auditor's report contained a reservation of opinion because capital assets costing less than $15,000 are expensed and are not recognized as assets in the Ministry financial statements.

# Gaming

## Overview

The mission of the Ministry of Gaming is "to maintain the integrity of gaming and liquor activities in Alberta and collect revenues for the Province." The organizations in the Ministry of Gaming reporting entity include the Alberta Gaming and Liquor Commission (AGLC or "the Commission"), the Department of Gaming, and the Lottery Fund. The Minister of Gaming is also responsible for the administration of the *Racing Corporation Act*.

*Gaming has grown by nearly 60% in 5 years*

The gaming industry in Alberta generates significant revenues. Of the total proceeds from legalized gaming (wagers less prizes) of $1.5 billion in 2000-2001, approximately $1.0 billion was deposited into the Alberta Lottery Fund, approximately $335 million was paid as compensation to gaming operators, and approximately $170 million passed directly to charities under the "Charitable Gaming Model." Analysis of gaming's growth of almost 60% in the past five years indicates there has been a shift from gaming activities such as bingo and horse racing to activities such as video lottery terminals (VLTs) and slot machines. Liquor and related revenue, net of cost of goods sold, contributed an additional $468 million to the Province's general revenues in 2000-2001.

*The Ministry faces a number of challenges*

The Ministry faces a number of challenges. From a policy perspective, the Ministry works to balance the interests of the government, private sector businesses, charitable organizations, and the public in decisions about the gaming and liquor industries. From a regulatory perspective, the Ministry must monitor compliance with liquor, gaming and tobacco laws and agreements. From an operational perspective, the Ministry operates the large-scale systems that control liquor distribution and electronic gaming activities in the Province.

## Scope of work

*Our work focused on compensation to gaming operators*

In 2000-2001, our Office examined the systems used by the AGLC to set the compensation rates for VLT and casino operators. We also reviewed the systems used by the Commission to manage contracts for the operation of electronic racing terminals.

# Compensation to VLT and casino operators

## Background

The AGLC regulates the compensation received by VLT operators and casino facilities. The distribution of proceeds from VLTs and casino games is governed by a complex series of agreements, as shown below:

| | AGLC | Operator | Charity |
|---|---|---|---|
| VLTs | 85% | 15% | - |
| Slot machines [1] | 70% | 15% | 15% |
| Table games (blackjack, roulette, etc.) [2] | - | Lesser of fixed fee and 50-75% | Greater of 100% less fixed fee, and 25-50% |
| Electronic racing [3] | 15% | 70% | 15% |
| Poker | - | 75% | 25% |
| Craps | - | 75% | 25% |
| Progressive games | - | 100% | - |

The approximate amounts received in 2000-2001 were:

| | AGLC | Operator | Charity |
|---|---|---|---|
| VLTs | $584,922,000 | $103,184,000 | $ - |
| Slot machines [1] | 261,288,000 | 55,178,000 | 51,835,000 |
| Table games [2] | - | 53,858,000 | 45,898,000 |
| Electronic racing [3] | 1,028,000 | 4,795,000 | 1,028,000 |
| Poker | - | 5,505,000 | 1,835,000 |
| Craps | - | 4,657,000 | 1,552,000 |
| Progressive games | - | 3,380,000 | - |

Recommendation No. 10

**Compensation to gaming operators**

**We recommend that the Alberta Gaming and Liquor Commission determine whether compensation rates paid to VLT and casino facility operators represent an appropriate commercial return for services provided.**

---

[1] Includes revenue earned on electronic racing terminals owned by the Commission. Charities do not receive revenue from slot machines in racing entertainment centres.

[2] Compensation rate varies by location. For all other gaming activities, rates are uniform throughout the Province.

[3] Includes revenue from electronic racing terminals owned by casino facility operators only.

*Current compensation rates are not supported with accurate cost information*

We are concerned that an analysis supporting the compensation rates paid to VLT and casino facility operators is not available. The Commission does not have recent, comparable, and verified information on operator costs to use as a basis for assessing the reasonableness of compensation rates. As a result, there is a risk that the existing compensation rates may not be appropriate.

*Revenue-based compensation, unless supported by costs, may violate federal law*

The current compensation rates may also pose a legal risk. A legal opinion obtained by the Commission confirms that an operator's fee, however calculated, must reflect commercial rates for the services provided. When an operator participates in the outcome of gaming, as may be the case if revenue-based compensation is not supported by actual costs, the operator can become a participant in the conduct and management of the gaming activity as well as the distribution of proceeds. Under the *Criminal Code*, it is illegal for anyone other than a provincial government or licensed charitable or religious organization to participate in the conduct or management of a gaming activity.

*A planned review of compensation will provide an opportunity to address concerns*

The Commission plans to undertake a review of operator compensation in 2001-2002. In carrying out this review, the Commission may wish to consider the following:

- obtaining cost information on a comparable basis across facilities by specifying financial statement categories to be used and the rules to be applied within these categories, for example the treatment of amortization and executive compensation.
- obtaining casino cost information that segregates the operation of slot machines, electronic racing terminals, craps, poker, and restaurant and bar services, since each of these activities has its own source of revenue.
- verifying cost information using an independent auditor or AGLC staff.
- Determining the relative profitability of different gaming activities and locations, to match compensation with the costs of services provided.
- implementing a process to monitor cost information on an ongoing basis to determine whether rates continue to be reasonable. Periodic review will also help to identify cost anomalies and may help to identify opportunities for operators and the Commission to reduce costs.
- obtaining legal advice to ensure all compensation arrangements comply with applicable legislation.

# Electronic racing terminals

Recommendation No. 11

**Electronic racing terminals**

**We recommend that the Alberta Gaming and Liquor Commission improve its management of electronic racing terminal contracts.**

*ERTS are similar to slot machines, although somewhat less profitable*

Electronic racing terminals (ERTs) are essentially video screens linked to a central game unit that runs simulated horse races. Like slot machines, ERTs dispense coins on every win, therefore coin-handling costs make slots and ERTs generally somewhat more expensive to operate than VLTs. ERTs also use slightly more floor space than the same number of standard slot machines and have lower average profit per terminal before expenses than slot machines (roughly $40,000/year per terminal versus $100,000/year per slot machine).

*Casino operators purchased the ERTs and have received higher compensation for this investment*

All VLTs and slot machines in Alberta, except certain leased slot machines first introduced in 2000, are purchased and owned by the Commission. The Commission also owns the ERTs in two racing entertainment centres. The regular retailer commission paid on VLTs, slot machines, and ERTs owned by the AGLC is 15% of proceeds. In contrast, casino facility operators purchased the ERTs in the 11 casinos that offer these games. The operators have received a commission rate of 70% on these machines to compensate for their investment.

*ERT compensation has not been reviewed and adjusted under the contract to reflect recovery of operator investment*

The ERT contracts with the casino facility operators provide for a quarterly review and adjustment of the compensation rate by the AGLC. This review has not taken place. Our audit revealed that the 70% compensation rate has been sufficient to allow 8 of the 11 operators to fully recover their capital investment in the ERT machines in an average of 12-18 months. However, compensation rates have not been adjusted as these investments have been recovered. As a result, there is a risk that compensation rates may not continue to be appropriate.

*Compensation to March 31, 2001 has significantly exceeded repayment of investment plus regular commission*

The table below summarizes the total investment and compensation for ERTs in the 11 casinos from 1996-1997, when the machines began to be installed, to March 31, 2001. As shown, the total compensation received has been more than $7 million greater than the cost of the machines plus the normal 15% compensation paid to operators of ERTs owned by the Commission.

| | |
|---|---|
| Operator commission at 70% (actual) | $15,022,000 |
| | |
| Operator investment in ERT machines | 4,223,000 |
| Operator commission @ 15% (imputed) | 3,171,000 |
| | $ 7,394,000 |

*The AGLC will continue to pay 70% commission up to the end of 2003, then pay fair market value to buy the machines*

The Commission has offered to buy each machine from the operator for a lump sum equal to the fair market value of the machine. This additional cost will be approximately $2.8 million. The compensation rate will be adjusted to 15% upon purchase. For operators who choose not to sell their machines, the AGLC will continue paying 70% compensation until December 31, 2003, at which time it plans to exercise its right to terminate the current agreements.

*The AGLC is reluctant to reduce the current ERT compensation rates, although the contracts provide for such adjustments*

The Commission indicates that the present compensation structure will be extended until December 31, 2003 because the operators have counted on this revenue stream in making their business plans. However, in our view the operators were aware of the risks they assumed in signing contracts that provided for quarterly compensation adjustments. Moreover, since this contract term increased the operators' risk, the Commission presumably paid a premium to obtain this right.

*The current compensation rates may pose a legislative compliance risk*

The current compensation rates may also pose a legislative compliance risk. A legal opinion obtained by the AGLC indicates that it is questionable whether the Commission can demonstrate that it controls the conduct and management of the ERTs as required by the *Criminal* Code, since the operators appear to be the primary beneficiaries of the current compensation arrangements.

*The current compensation arrangement may result in significant excess costs*

We estimate that the electronic racing terminal program, by its planned conclusion in 2003, may result in payments of more than $21 million to operators in excess of capital recovery and a normal commission rate of 15%. We encourage the Commission to re-examine alternatives to reduce these costs.

## Racing industry renewal initiative

*In 1999-2000, we recommended improved accountability for racing grants*

Last year we recommended that the accountability for grants to racetrack operators be improved. We also recommended that the Ministry improve its accountability relationship with the Alberta Racing Corporation (ARC), and that the ARC's business plans and annual reports be improved to better demonstrate the extent to which it was achieving the goals of the Racing Industry Renewal

Initiative.

*New agreements improve the accountability framework, but implementation will not occur until 2001-2002*

New agreements were signed with racing entertainment centre (REC) operators and the ARC effective September 21, 2000. The new agreements provide a framework for stronger accountability reporting by the REC operators and the ARC, including a requirement to provide plans before funds are advanced and a subsequent accounting and review after funds are used. As no funds were advanced under the new agreements in 2000-2001, we will review the implementation of the new framework in 2001-2002.

*The Ministry's accountability for the ARC will be reviewed in 2001-2002*

With respect to the Ministry of Gaming's oversight role and accountability for the performance of the ARC under the *Racing Corporation Act*, we recognize that coordination of respective roles and responsibilities will take time. We will also follow-up this issue in 2001-2002.

## Ministry financial statements

*The AGLC auditor's report qualification was repeated for certain payments under the previous agreements*

In 1999-2000, the auditor's reports on the financial statements of the AGLC and the Ministry of Gaming were qualified because certain payments to REC operators and the ARC were in excess of normal retailer commissions and therefore not in compliance with legislation. This qualification was repeated in 2000-2001 in respect of similar payments made between April 1, 2000 and September 20, 2000, the date that new agreements were signed as noted above.

## Other entities

Financial statement audits of the following were also completed for the year ended March 31, 2001.

Ministry of Gaming
Department of Gaming
Alberta Gaming and Liquor Commission
Lottery Fund

# Government Services

## Overview

*The Ministry's mission*

The Ministry's mission as stated in the 2000-01 Business Plan is as follows:

"Service excellence is the focus for delivery of services to Albertans. Alberta Government Services partners with governments, stakeholders, and businesses to:

- provide a secure, high-quality, and innovative gateway to a wide range of government services, including consumer information, registration, licensing, and other government services
- facilitate, support, and, where mandated by legislation, regulate and strictly enforce high standards of consumer protection and business practice
- support the Regulatory Review Secretariat in its mandate to reduce regulatory red tape and complexity throughout government"

*Two core businesses*

In 2000-2001, the Ministry had two core businesses, namely, services to Albertans and regulatory, monitoring, and compliance functions. The services core business is to deliver motor vehicles and operators licensing, vehicles registration and consumer information services to Albertans. The regulatory, monitoring, and compliance core business is to ensure effective regulatory compliance and enforcement for about 30 Acts for which the Ministry is responsible, such as, the *Fair Trading Act*, the *Business Corporations Act* and the *Charitable Fund-Raising Act*.

*Financial results*

For the year ended March 31, 2001, Ministry revenues totalled $255 million, with the main income sources being $207 million from motor vehicles registration and operators licensing fees and $30 million from land titles registration fees. Expenses incurred for this period were $49 million including $33 million incurred in registries programs and $9 million in consumer affairs.

*Risks*

In determining the extent of our audit activities, we consider risks related to misstatement of the annual financial statements of the Ministry, particularly in relation to revenues. In addition, we consider business risks related to the responsibilities of the Ministry. In that connection, for 2000-2001, we noted that the Ministry has a significant amount of legislation, about 30 Acts, for which it is responsible to ensure effective regulatory compliance and enforcement.

Of particular interest to us this year is the regulation of not-for-profit activity. The Ministry has a regulatory responsibility to monitor this area to ensure the public does not suffer financial loss as a result of inappropriate business practices.

For 2000-01, we discussed this risk with Ministry management and reviewed the systems in place to mitigate this risk. In addition, for 2000-01, we focused on one specific area for a detailed review, namely, the Ministry's system to monitor the regulatory function in connection with the *Charitable Fund-Raising Act*.

## Scope of work

In addition to the audit of the annual financial statements, the following work was completed:

- reported on the results of applying specified auditing procedures to the Ministry's key performance measures in the Ministry's Annual Report 2000-01, and
- reviewed the *Charitable Fund-Raising Act* and increased our understanding of how the Ministry manages compliance with the legislation.

## Joint Audit of Alberta Registries

*Most of the previous recommendations have been implemented*

During 2000-01 we followed-up on previous recommendations made following an audit in 1997-1998 of Alberta Registries performed in conjunction with the Office of the Information and Privacy Commissioner. Last year we commented that the Ministry has accepted all recommendations made, however, there were five recommendations not fully implemented, as follows:

- It is recommended that the Minister responsible for Alberta Registries consider the advisability of making personal information in the Office of the Registrar of Motor Vehicles fully subject to Part 2 of the *Freedom of Information and Protection of Privacy Act*.
- It is recommended that Alberta Registries, through literature produced for the public, communicate its purpose and authority for collection of personal information.
- It is recommended that Alberta Registries monitor the disclosure of driver abstracts to ensure consent is obtained in compliance with the Motor Vehicles legislation.

- It is recommended that Alberta Registries ensure that the personal information disclosed to clients is used in accordance with the terms of the access agreements between Alberta Registries and those clients.
- In order to ensure that access to the Motor Vehicles Registry is restricted uniformly, it is recommended that Alberta Registries establish standards and conditions for granting access privileges and regularly update its records.

In general, these five recommendations relate to the need to ensure that there is only appropriate restricted access by authorized parties to the personal information obtained by Alberta Registries.

The Ministry continues to work towards implementation of these five recommendations. Ministry management have informed us that they plan to keep our Office informed of the status of the legislative changes relevant to the five outstanding recommendations and provide our Office with quarterly updates, including timelines and actions. We consider that progress is satisfactory.

*We will continue to monitor*

We will continue to monitor the Ministry's progress towards full implementation of the recommendations.

# Charitable Fund-Raising

## Background

In 1995 the *Charitable Fund-Raising Act* was enacted to regulate charitable fund-raising activity in Alberta. For non-compliance with some sections of the legislation, there can be severe fines or imprisonment.

At March 31, 2001 there were about 600 charitable organizations registered with Alberta Government Services. These charitable organizations are fund-raisers soliciting donations door-to-door, by mail and telephone. Some organizations use fund-raising businesses as agents to solicit and collect donations. Over the past few years there has been an increase in the number of charities soliciting contributions from the public. Therefore, the Ministry has a larger market to regulate.

It is important for the Ministry to continually monitor compliance with legislation on areas, such as:

- **Charitable organizations** - Organizations that intend to raise more than $25,000 of gross receipts must register with the Ministry.

- **Enforcement and inspection of records of charitable organizations or fund-raising businesses** - Organizations must maintain appropriate records.

## Risk Assessment

Recommendation No. 12

### Compliance with the *Charitable Fund-Raising Act*

We recommend that the Ministry improve its monitoring of compliance with the *Charitable Fund-Raising Act.*

*Monitoring is limited to investigations and reviews of applications*

In 2000-01, there were over 500 enquiries made to the Ministry from the public related to the *Charitable Fund-Raising Act*. Those enquiries led to about forty investigations by the Ministry. In addition to following up enquiries, the Ministry screens applications for registration by fund-raisers and does background checks of management of those organizations, including for example, criminal records checks and bankruptcy checks. As a result, monitoring is limited to an initial review of the fund-raiser when applications are received and to identify problems arising from enquiries. Fund-raisers, who are not the subject of an enquiry, are not monitored subsequent to the initial screening.

*This does not constitute effective monitoring by Ministry staff. Audits of fund-raisers are required*

In our view, a monitoring system that is basically complaint driven is not sufficient. Only the fund-raisers who are the subject of an enquiry may be investigated. Also, not all members of the public who have concerns about fund-raising activities will lodge a complaint. Further, there are requirements under the Act, which the public would not be able to assess, such as record keeping. We believe that an effective monitoring system would include an audit of fund-raisers for compliance with the Act.

*The Ministry should assess the risk of non-compliance in critical areas of the legislation*

The Ministry agrees with our recommendation and has indicated that it plans to implement a program to audit fund-raisers for compliance with the Act. As the Ministry is responsible for ensuring effective regulatory compliance and enforcement for about 30 Acts and has limited resources available for such responsibilities, it may not be possible for the Ministry to audit all fund-raisers. Therefore, the Ministry should assess the risk of non-compliance for each registered charitable organization and focus its inspection resources on those organizations that have the highest risk of non-compliance and for critical areas of activity, such as those subject to severe penalties.

## Ministry financial statements

I conducted an audit of the financial statements of the Ministry as at and for the year ended March 31, 2001. My audit opinion on these financial statements was issued without reservation.

# Health and Wellness

## Overview

The vision of Alberta Health and Wellness (the Department) is "citizens of a healthy Alberta achieve optimal health and well-being."

*The Department's mission is to lead*

The Department's mission is "to maintain and improve the health of Albertans by leading and working collaboratively with citizens and stakeholders." This recognizes a social system for health that should emphasize illness prevention and the delivery of health services. To carry out the mission, the Department defines two core businesses. These are to lead and support a system for the delivery of quality health services and to encourage and support healthy living. The intent is to promote the wellness of Albertans and not just to treat the ill and injured. Programs are to address risks to health where knowledge or early intervention can reduce demand for health care.

*A complex system to manage*

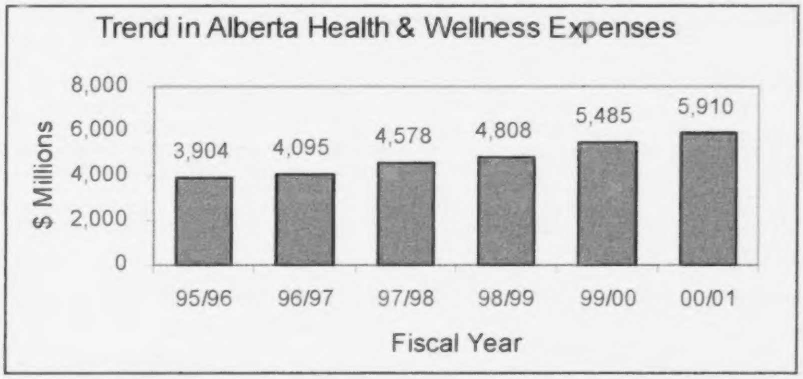
The Minister is accountable for more than 30 Acts and for what has been achieved from the allocation of money to programs and services delivered through a regional structure. The Department's challenge is to reconcile many stakeholder interests and orchestrate a Provincial health system through a decentralized structure.

The main entities accountable to the Minister are the Department, 17 regional health authorities (RHAs), two health boards (mental health, cancer), the Alberta Alcohol and Drug Abuse Commission (AADAC), and eight Persons with Developmental Disabilities Boards (PDD Boards). Effective March 19, 2001, responsibility for PDD Boards was transferred to the Ministry of Community Development.

*Highest program spending Ministry*

Health spending represents about 35% of total program spending of the Alberta government. A comparable expenditure profile (unadjusted for inflation) of the Ministry is presented in this chart:

Chart 1



Readers are referred to the annual report and financial statements of the Department for details of expenses (www.health.gov.ab.ca).

*Significant increase in spending*

Public health spending has increased significantly. Over the past five years, per capita spending of the Department increased 28% in constant dollars and about 38% in current dollars. Expenditures are higher than they have ever been at about $1,970 per person in 2000-2001. Alberta has a relatively young population. The Department calculates that, on an age-adjusted basis, Alberta has the highest per capita health spending of all provinces.

## Summary of audit results

*Urgency for improved planning and control*

While the Department has made some progress on audit recommendations, implementation is slow and results are not yet apparent. There is more urgency for improved planning and control in view of increased health spending.

Authorized business plans are not in place at the beginning of the year as a basis of accountability throughout the year. Continued one-time funding is not compatible with well-managed budgets.

Better reporting of costs, outputs and outcomes is needed so that decision makers can know whether optimal results are being achieved at least cost and to support evidence-based planning and resource allocation decisions.

The Department should clarify its expectation for equipment funding. Unrestricted funding for capital equipment has deferred deficits rather than recognizing them. Stronger management of available resources is needed to further diminish the risk of not sustaining equipment assets.

There is opportunity to strengthen accountability for Province-wide medical services and show how to achieve better accountability for clinical and financial results.

An assessment of risks in physician payment systems should be completed and systems correspondingly further improved to prevent incorrect billings and to promote cost-effective use of resources.

The Department can better manage contracting risks by improving control to ensure compliance with policies and good practices. Also, the process for approving surgical service contracts of health authorities can be improved in line with new legislation.

Now is the time for the Department, in cooperation with health authorities, to assess the benefits and risks in the way health information systems are developed and managed.

Because of inadequate financial reporting, my audit opinions were reserved on the financial statements of the Ministry, the Department, various Persons with Developmental Disabilities Boards, and the Alberta Alcohol and Drug Abuse Commission.

# Ministry of Health and Wellness

## Scope of work

The focus of systems work in the current year was to follow-up prior audit recommendations, to assess contracting by the Department, and review the process for approving surgical service contracts. Also reported are the results of auditing Ministry financial statements for the fiscal year ending March 31, 2001 as well as the financial audits of health authorities, person's with developmental disabilities boards, and the Alberta Alcohol and Drug Abuse Commission.

## Business planning not working

Recommendation No. 13

**Business planning**

**We again recommend the Department of Health and Wellness and health authorities implement a joint strategy for improving the implementation of authorized business plans at the beginning of the year.**

This recommendation was made last year (2000—No. 18) and accepted by the government. In May 2001 the Department informed us that progress was being made since a working group had been established to address the issues reported.

*Funding given without benefit of approved business plans*

Meanwhile, the pattern of prior years continues and deadlines for completion of health authority business plans have not yet been met. Health authority business plans were not approved for 2000-2001 until more than half the fiscal year was over. Health authority business plans for 2001-2002 are yet to be submitted to the Minister and approved as of July 2001.

*Inability to exercise budgetary control*

The business planning and budgeting system is not working as well as it should as demonstrated by an inability to exercise budgetary control. Additional funding has become more the norm than the exception even though the base health budget has increased significantly. While "one-time" funding could be expected in exceptional circumstances, it is used for predictable items such as population growth.

For 2000-2001, supplementary estimates for health and wellness amounted to $293.6 million. This again included amounts to eliminate accumulated deficits of certain health authorities, to purchase equipment, and to pay for the cost of drug benefit programs or physician payments above original budgeted amounts.

Shortly after providing the initial base budget increases for the health system (28.1% over three years), health authority budgets received a further $200 million for 2001-2002 as a "one-time fiscal adjustment". This provided additional funds for similar items covered by initial budget increases such as population growth.

*System not used as intended*

Part of the issue is that after being advised of funding allocations, health authorities continue to submit budget plans showing they will expense more than planned revenues with resulting deficits that the Minister must then negotiate. The system is not used as intended because parties cannot agree on funding levels.

*Relevance of business plans at risk*

Such practices continue to raise risks. These include uncertainty as to the relevance of business plans to managing operations. While subsequent additional funding may provide relief from immediate budget pressures, it is not conducive to good management since it tends to create the expectation of continuing amounts in addition to planned budgets. The dynamics tend to make business plans and budgets less relevant.

*One time is not one time*

Recently, the Department informed health authorities that one-time finding should not be built into their future business plans and budgets. However, once money has been spent a commitment to future services and costs is likely. Unless there are surpluses, decreased service demand, or costs reduced, the future budgets of health authorities would have to sustain the operations as made possible with "one-time" funding.

*Need to advance planning capabilities*

To further address these risks, the Department should advance its planning capabilities and compel health authorities to do the same. The parties must be committed to making the business planning process work. The Department and health authorities need better methods for understanding and forecasting health needs and costs, comparing these to what is affordable and sustainable, and articulating the impacts of any difference on the population and the health system. The Department must be able to better determine affordable and sustainable spending and use the information to plan and control.

In conclusion, the Ministry continues work to improve the linkage between various systems for planning and allocating resources. However, fundamental issues remain to be addressed in order to achieve meaningful business plans and budgets. The existing process is not used as intended.

## Slow progress in measuring and reporting the performance of the health system

Recommendation No. 14

**Measuring and reporting the performance of the health system**

**We again recommend the Department of Health and Wellness, in cooperation with stakeholders, improve the measurement and reporting of the quality and cost of health services.**

Each of my previous four Annual Reports made recommendations for improving performance measurement and reporting in particular with regard to outputs and outcomes.

*Targeted funding provided an impetus for performance reporting*

Last year we noted new targeted funding for improved access to certain services provided the impetus for reintroducing or adding performance measures. However, a process was yet to be established for how the Department and health authorities would collaborate in developing and implementing measures of the quality of health services. We reported a need for output and outcome measure and target setting. There were gaps in information and problems in consistency and comparability of performance information.

*Little progress*

The current situation is much the same. Departmental activities intended to improve performance reporting have not advanced or are on hold. Management are working to produce currently required information and working with health authorities on improving access measures such as wait lists and wait times.

*Need for change*

Management wants to pay more attention to what ought to be, but is not, measured and reported for the health system, in particular key measures of outputs and outcomes. And, focus must be given to the integration of performance measurements and the evaluation of variances between planned and actual results.

*Measuring outcomes is key*

In particular, decision makers would likely benefit from information to know, for example, the extent to which quality improvement processes are working across the health system. They may also better know if increased spending is making a difference to quality through such measures as rates of positive outcomes from care intervention, error rates associated with care, clinical complication rates, or rates of recidivism into health services.

*Costing is work-in progress*

Also (in relation to recommendations 19, 20 and 21of last year) while the Department recently began work with health regions to know the cost of services and exploration of changes to population health funding have begun, information about service costs and the full cost of services to regional populations are yet to be used in support of planning and budgeting.

*Costing required for management purposes*

The main driver for costing continues to be the population-based funding formula used to allocate funds to health authorities and continuous improvement in this regard is noted. What's needed is a shift to costing for resource management. This will require strategies, methods and systems to produce information (e.g. work load activity) for costing outputs and/or services for management purposes. A working group made up of Department and health authority representatives anticipates it will be addressing these matters in the near future.

In conclusion, little progress is being made in measuring and reporting performance. The risk remains that sufficient information is not available to know what is happening to the quality and cost of health services. More money is spent – but to what end?

## Grant accountability—aligning means with ends

**Recommendation No. 15**

**Basis of funding**

**We recommend the Department of Health and Wellness clarify expectations for funding equipment and assess the merits and risks in providing equipment funding in two different ways.**

*The Ministry has a strategy of targeting money for specific purposes*

Although funding from the Department is often targeted for specific purposes as described in the grant listing, news releases and correspondence with grant recipients, the majority of it is distributed as unrestricted funding and can be spent at the discretion of health authorities.

*$161 million of funding distributed in two different ways*

For 2000-2001, health authorities received additional funding amounting to $161 million for capital equipment. Although the funding was for the same purpose, it was distributed in two different ways. About $88 million was provided by the Department to health authorities on an unrestricted basis. About $73 million was provided on a restricted basis, including $14 million for MRIs.

*Form of funding inconsistent with targeted use*

The form of unrestricted funding is not consistent with an expressed purpose of funding. It is also difficult to identify what criteria apply in determining when restricted or unrestricted funding should be used. In particular, it is contradictory to provide funds for capital equipment as unrestricted operating revenue. This creates budget risks.

Taking capital funding into current period revenues means that revenue is not matched with the cost of associated assets as amortized over future years. Revenue that is prematurely recognized creates future budget risks. Since defer and match accounting was not required, capital funding became income that transformed operating deficits into surplus.

*Deficits deferred to future budgets*

We estimated the bottom lines of health authorities were augmented by $80 million. While health authorities collectively report $40 million surplus for 2000-2001, effectively there was a $40 million deficit that would be a factor in balancing future budgets. Operating budgets were assisted in the short term but potential demand on the future health budget was not since the amortized costs of assets will have to be covered from future operating revenue.

Accordingly, the Department should assess the budget impacts from providing equipment funding on an unrestricted basis. When doing this, the Department should also review requirements for managing equipment as was recommended in 1998-1999 (1999—No. 38).

*Risk of mixed messages*

On the one hand, health authorities are expected to self-fund equipment needs from managing general revenues allocated by population funding. On the other hand, the Department provides additional funding specifically for capital equipment. This sends mixed messages about what is expected in planning and funding equipment requirements. It may also result in health authorities receiving money when they have not managed available resources to replace and operate equipment.

We note that five health authorities report having set aside no amount of net assets (equity) to replace equipment. Others have restricted amounts ranging from 3% to 60% of existing equipment cost. In total, amounts restricted by health authorities represent about 7.8% of the capital equipment cost reported by health authorities; a small portion of what would be required to replace equipment at the end of its useful life. Further, in total, the Department calculated that the average remaining useful life of capital equipment in the health system was 4.6 years as at March 31, 2001, not a lot of time to plan for replenishment.

In conclusion, budgets are vulnerable to future demand for operating funds to cover the amortized cost of assets purchased today. The demand for equipment money and associated operating costs is not likely to abate without clarification of what is expected for funding equipment needs.

## Accountability for the cost and quality of health services

Last year's recommendation (2000—No. 17) encouraged the Department of Health and Wellness to further develop a process for defining and reporting the respective accountability of those affecting the cost and quality of health services.

The Department is making progress through a number of important activities and projects including meeting with key health system stakeholder to discuss the findings of the Medical Services Project and next steps to be taken.

We reviewed Province-wide medical services and revisited systems for paying physicians. These provide examples of how accountability can be improved.

## The case of Province-wide services – an opportunity to practice accountability

### Province-wide services

**We recommend the Department of Health and Wellness, in collaboration with the Capital Health Authority and the Calgary Health Region, strengthen accountability for Province-wide services by:**

- **Ensuring information is reported that compares expected results with actual and explains significant variances**
- **Establishing relevant and reliable measurement of outcomes**

*Province-wide services are for all Albertans*

Province-wide services (PWS) refers to a small range of highly specialized medical interventions which are generally complex, highly technical, and costly. They are concentrated in two regional health authorities for access by all Albertans. These are the Capital

Health Authority (CHA) and the Calgary Health Region (CHR). PWS includes organ and bone marrow transplants, major heart surgeries and angioplasties, neurosurgery, treatment of severe injury and burns, renal dialysis, high cost drug therapies as well certain cancer treatments and care of severely ill infants.

We reviewed the process used at the Department for ensuring accountability for PWS. We examined reports and procedures at the Department and interviewed staff. Excluded from the scope of review were the systems within CHA and CHR to manage PWS services.

*Funding in addition to population funding*

Funding is given to the two health authorities in addition to, and apart from, regional population-based funding. The Department determines funding on a service-by-service basis by an established process that forecasts volume and price increases using information provided by a long-established hospital information system and additional information supplied by the RHAs.

The history of PWS budget and spending (in $ million) as reported by the Department is as follows:

| Fiscal year | Budget | Actual | Variance |
|---|---|---|---|
| 2001-2002 | 350.5 | Year in process | N/A |
| 2000-2001 | 303.9 | 320.5 | 16.6 |
| 1999-2000 | 257.2 | 257.2 | 0 |
| 1998-1999 | 206.7 | 231.0 | 24.3 |

The PWS system is designed to fund average actual costs as a means of encouraging efficiency in service delivery and for the RHAs to compare performance.

Our examination found weaknesses in the system of accountability for PWS.

## Planned and actual results not compared

*Funding should be reciprocated with accountability*

While various reports are published showing trends in services, information is not produced that compares budgeted (targeted) activity and funds with actual services and costs.

*Results not clear from extra funding*

As with other areas, PWS is characterized by additional funding either increasing initial budgets or to cover amounts spent over budget. This amounted to $102 million for the four fiscal years from 1999 to 2002. However, except for a small fraction, additional amounts provided were not allocated to specific services and linked to increases in volumes and costs as is the case when budgets are established. Consequently, what was or will be achieved in particular with $102 million extra funding is unclear, except generally funding PWS.

### Relevant measures of costs and outcomes possible

Reports sent to the Department by the two RHAs differ in structure, terms, and content. Therefore, the utility of information for accountability purposes is uncertain. In terms of content, for example, analysis of renal dialysis (about $57 million) is limited because activity reporting is not consistent. One RHA reports activity using therapy days and patient visits while the other reports the number of times dialysis is provided. Comparable cost per case figures cannot be derived.

*Significant differences require validation*

There is a need to ensure reliable data and comparable costing methods. One RHA reported total PWS cost increases for 1999-2000 of 11% while the other reported 27%. The Department could not reconcile widening cost differences with the information provided.

Numerous differences exist in individual case costs as well, notably for inpatient services. For example, during 1999-2000 angioplasties cost $8,893 each for 1,727 procedures in one RHA compared to $10,535 each for 1,551 procedures in the other. Further, neonatology is indicated to cost 41% more per case in one RHA compared to the other.

*Bench marking would help*

The Department needs to understand why such differences happen in order to validate systems, improve the PWS budgeting process, and solidify commitment to a PWS budget. Benchmarking would be one means where costs, outputs and outcomes could be compared and stakeholders would benefit from understanding the causes of differences. Are differences the result of data, acuity levels, or the way services are delivered?

*Opportunity to link costs and clinical outcomes*

While symposiums on outcome accountability have recently been held, these focused on clinical issues and arguments for increased funding. Information on cost drivers and clinical outcomes is generally not available and difficulties are acknowledged relating to the coding of services. Collaboration and focussed work is required to bring data together, set clinical outcome targets, criteria, and reporting methods. This would serve PWS accountability and help quality control for improved care while potentially reducing costs.

*Department has begun action*

In conclusion, it is not clear that PWS is to be a contract for delivering services at an agreed standard at a given funding level. The Department recognizes this and at the time of preparing this Report began drafting proposals for consideration by the PWS Committee. We anticipate that by focussing on PWS, progressive steps can be taken showing how to achieve better financial and clinical accountability.

## Payments for health services – progress but issues remain

Recommendation No. 16

### Physician billings

**We again recommend the Department of Health and Wellness complete a risk assessment of physician billings with reference to section 8 of the *Alberta Health Care Insurance Act* and further develop an examination process for meeting the expectation of the Act.**

*A complex, high volume system*

Pursuant to the Alberta Health Care Insurance Plan, agreement with the Alberta Medical Association, and a Schedule of Medical Benefits (containing more than 3,000 billing codes), during 1999-2000 the Department processed approximately 26 million service event billings from physicians amounting to more than $900 million fee-for-service payments to some 4,650 physicians. Implementing agreed compensation rates, informing physicians, and maintaining claim payment and assessing systems are core tasks of the Department without which the public health system could not function.

*Managing risks is difficult*

Managing risks is difficult in a volume driven fee-for-service payment system. Nonetheless, it is important to maintain the integrity of the medical claims payment system since the controls inherent in a market place transaction are missing.

*Progress made – some issues remain*

In prior years we recommended the Department improve processes that prevent, identify, reassess, and recover practitioner medical claims at risk of incorrect payment. We conducted a follow up audit of claims investigation and found progress has been made and systems have changed.

Progress is indicated by better documentation of systems, implementing facility visits to validate claim payments, increased positive confirmation of service events with patients to a level of about 3,000 letters going out each month. But some issues remain.

*Risk assessment started but not finished*

A risk assessment of physician payments was started but not finished. However, increased verification of certain billing codes and other documents reflect consideration of risks.

A risk assessment focussed on results should consider section 8(2) of the *Alberta Health Care Insurance Act* that permits the Minister to reassess any claim when, in his or her opinion:

a) The claim relates to a health service of a kind where the frequency is unjustifiable in the circumstance.

b) The total amount paid for the service was, in the circumstance, greater compensation for that service than it should have been.

c) The service provided was inappropriate or unnecessary.
d) The service could have been replaced by another professionally acceptable service for which a lower rate of benefits was payable.
e) In the case of a service provided by a physician, the service was not medically required.

*Risks not sufficiently identified*

The investigation and assessment process emphasizes subsections (a) and (b) and not (c) through (e). Current reporting by the Claims Analysis and Reporting Unit (CAR) does not cover all the potential risks indicated in section 8 of the Act. Very recently CAR started a verification program to help identify situations where services may not be medically necessary. The Department will need to further develop a process, criteria and methods to fulfill expectations of the Act.

*Investigation process changed*

The investigation process was streamlined with use of statistical analysis and emphasis on early communication with physicians for explanation of questionable billings.

*Investigations increased, results not yet certain*

The number of completed investigations has increased. Results from this change, however, are not yet readily apparent from available information.

According to the CAR Annual Report for 1999-2000, 66 cases were completed for the year, mostly at the end of the year. Between April 2000 and January 2001 CAR closed 271 cases. Of these, 68 were reportedly closed, for example, because the practitioner explained the higher than expected billing volume was due to a "busy practice."

*Better information needed to evaluate results*

CAR is revising its reporting template and terminology to better disclose reasons for case closures as should be documented in each file. It is difficult to tell if results are as good as they could be and/or whether there are risks to be managed from a revamped system.

While closing four times as many cases as the previous year, recovery of over-billings so far have not changed. In fiscal year 2000-2001, $57,000 of over payments was collected compared to $147,000 the previous year (with no interest yet charged as is allowed by the Act). There are five cases in litigation pending possible recovery of $422,000. It is possible that results could change once the new process has more time to work.

In conclusion, while progress has been made, information based risk assessment is still required to ensure expectations of *Alberta Health Care Insurance Act* are met. The Department needs to further develop a process for meeting these expectations.

## Strategies to prevent incorrect billings and to promote cost-effectiveness

Recommendation No. 17

### System for paying physicians

**We again recommend the Department of Health and Wellness implement strategies that would promote cost-effectiveness as part of the system for paying physicians for their services.**

In 1998 we had noted the potential to formalize rules for reassessing medical claims since they were not sufficiently comprehensive and binding in relation to present service practices. There was the risk that fee rules did not match current medical practice.

*A case illustration*

One recent case demonstrates this and also illustrates reliance on physicians to provide information in support of claims investigation by the Department.

*Time rules do not work*

A general practitioner avoided a potential assessment for having billed for treating twice as many patients in one year as the average of peers. The Department felt the physician could not have spent enough time with each patient to justify billings under the "limited" visit health service code, based on time guidelines for brief and limited visits.

The physician's legal counsel (same for all physicians and paid by public funds) successfully argued that the time guidelines were not a requirement of the fee schedule and there was no agreement to apply them as terms of physician payment. The high volume of limited visit billings was explained by using nurse triage and longer office hours. The case was closed.

The case has significance in view of the number of "busy practices" and the total volume of billings for visits to a doctor.

*A significant difference in billings that cannot be easily accounted*

According to Alberta Health Care Insurance Plan data, over 10 million "limited" service billings were paid to physicians during 1999-2000 at an average of $22 each costing $231.6 million. Payments for limited visits account for about 26% of all physician payments. In contrast, there were less than 30,000 "brief" visit billings costing about $10 each for a total of $293,500.

The distinction between a brief and limited visit is small (in time—5 minutes, in service—the ordering of a test) and difficult for the Department to use. It is not in a position to say whether the difference between brief and limited billings is reasonable. Because of lack of use, the Department expects the brief visit code will be cancelled. A lower cost service amount would no longer be available as one reference to help assess higher than average physician billings for patient visits.

*Innovation required*

Accordingly, the Department needs to consider alternatives. The case described earlier presents information for the Department to consider for promoting change. Using nurses appears to mean that doctors can see more patients in a day. Perhaps nurse triage more commonly used would reduce the demand for doctors, alleviate workload and improve overall cost-effectiveness by enabling doctors and nurses to make optimum use of their respective professional competencies. The Department would have to fully assess the service model for increased use.

Certainly, all the foregoing demonstrates the importance of alternative remuneration systems to fee-for-service that are being pilot tested by the Department and the work of the Relative Value Guide Commission of Alberta to align fee rates with modern medical practice. This work has been ongoing for about five years.

*Potential for using payment information to support improvement in quality of care*

Physician payment and assessing generally does not examine risks to quality of services. While from time-to-time information on a few cases is provided on request, the Department does not yet systematically provide analytics from the physician payment system to the College of Physician and Surgeons of Alberta that might help support its processes and identify areas of risk to quality of care.

In our view, risks to cost and quality might arise not just when there is unusually high billing volume, but also when there is low billing by a physician. In such situations the question becomes how is the practitioner maintaining his or her competency?

We believe the design of payment systems, ability to access physician records in support of payments (as now provided for under the new *Health Information Act*), risk analysis and information sharing would contribute to other processes designed to ensure quality of care and accountability for the cost-effective use of public money.

In conclusion, while the Department has made progress with medical claim payment systems, new strategies are still required as recommended in 1998 with a view to preventing incorrect billings and promoting cost-effectiveness.

## Department's contracting for services—room for improvement

Recommendation No. 18

**Contracting for services**

**We recommend the Department of Health and Wellness assess reliance on contracted services and improve the control over contracting activity.**

*Extensive use of contracts*

The Department relies on contracted services in nearly all facets of its operations. We//net, for example, is virtually fully reliant on contracts such that more than 90% of its spending is the product of a contractual relationship. We estimate the Department may have as many as 800 contracts in force during a year. During 2000-2001, $63 million of contracts or contract amendments were reviewed in the Finance Division of the Department. During calendar year 2000 the legal services of the Department reviewed about 500 contracts or contract amendments as initiated by management.

Each program area or division of the Department makes contracting decisions and maintains their own contract management processes and records. This entails risks. The Department has issued general policy and procedural requirements, but contracting practices are likely to vary within the Department.

*Internal audit identified problems but action on report delayed*

About two years ago the then Financial Control Branch of the Department did an internal audit of Department's contracting practices and issued a draft report in June 2000. Findings included contract guidelines and policies not understood or fully known by program mangers, contracts signed off without being routed through financial or legal services, contracts extended multiple times without going through competitive process or re-evaluation of the service provider, and contracts closed without clear evaluation of performance. The audit report was not finalized and findings are pending action.

There is evidence that the new Executive of the Department is concerned about contracting activity. In December 2000, instructions were issued to all directors that all uncommitted contract money for discretionary contracts be frozen and any new ones (e.g. consulting services) are to be approved by the appropriate Assistant Deputy Minister and, if necessary, the Executive Team.

*Reliance on contracting poses several risks*

The extent of reliance on contracting poses risks of increased costs, inability to sustain employee competencies, and capability of the Department to use competitive bidding when reliance on service providers are sustained over long periods of time. The Department needs to assess where it is cost-beneficial to contract or to reduce reliance on contracted services.

An appropriate standard of control is also required as indicated by the following:

*Higher standard of control needed*

- As a basis for corporately managing contracting, an information system is needed to track the history and status of all contracts and which ones have been subject to competition or sole sourced and when they become due for termination or renewal and to record contract performance.
- Risk mitigation techniques could be more commonly used. For example, cost-benefit analysis to assess the choices between providing services directly, sole-source contracting or use of competitive bidding including techniques such as request-for-interest and request-for-qualifications. Also, verification of the capacity of contractors to perform could be used to provide assurances of service delivery.
- Contracts have been issued without the potential benefit of open bidding.
- Contract performance is not always assessed with clear and measurable results. Contract terms can be more specific, in particular relating to service deliverables.
- Legal, financial and human resource review of contracts while done on service contracts have at times been done after the date of contract commencement or close to the date when contracts were to end.
- Training in good contracting practices could be better utilized by those expected to initiate and manage contracts.

## Control in keeping with new requirements for surgical service contracting

This section summarizes work done specific to surgical service contracting. It also provides an update of actions taken by the Department to February 2001.

### Approving surgical service contracts

**We recommend the Department of Health and Wellness improve the process for approving surgical service contracts issued by health authorities.**

*Examination requested by the Department*

At the time that the *Health Care Protection Act* was being introduced, the Department requested we examine the process established by the Department for recommending surgical service contracts to the Minister for approval.

*Minister must approve*

Section 8 of the Act requires a health authority to send the Minister a copy of the proposed surgical services contract for approval. The Act requires that the Minister will not approve a proposed agreement unless certain conditions are met.

*Conditions to be met*

These conditions include, for example, consistency with the *Canada Health Act*, demonstrated need for services, no adverse impact on the publicly funded health system, expected public benefit, existence of an acceptable health authority business plan, indication of performance expectations and measures, and that the proposed agreement shows how conflict of interest rules and other ethical issues will be monitored.

*Opportunities for improving the process*

We did identify opportunities for improving the process leading to Minister approval of surgical service contracts. The Deputy Minister replied indicating that recommendations would be incorporated into the process for approving future contracts. Our observations in summary form follow.

*Give emphasis to due diligence*

Given the tight deadlines under which all participants were working to issue contracts, there was a risk that policies and practices in health authorities may not be formally revised to address specific issues. Further consideration should be given to the due diligence required. The Minister should receive assurances on the due diligence process at a health authority in reaching its contracting decisions.

*Performance standards and assessment criteria should be explicit*

The Department needed to establish the extent of required outcome expectations and performance measures for services in both private and public facilities. Provincial performance standards were not defined for inclusion in surgical facilities contracts. Absence of standards (e.g. for mortality rates, surgery complication rates, wait times, volume of service) makes it difficult for the Minister to evaluate performance of insured services on a consistent and comparable basis.

Ambiguity could be reduced by improving contract assessment criteria with the use of quantitative and quality requirements relating to such matters as performance expectations, standards of care, conflict of interest, best practise and support for expected public benefits including access and quality of care provided.

*Clarify the purpose of "third party" assessment*

Lastly, we understood that an independent third party was to validate the rationale for proposed contracts. However, it was not evident how this would affect a decision by the Department to recommend Minister approval of a contract. Nor was it clear by whom action was required to be taken on the results of third party assessment. These responsibilities needed to be documented.

*Department has taken steps*

After assessing the results of our review, the Department communicated the following to regional health authorities:

- The Department will work with regional health authorities to establish a due diligence process and Boards should have a process to assure itself that internal controls are effective to discharge Minister responsibilities pursuant to the *Health Care Protection Act*.
- Ministry guidelines for proposals for insured surgical services contracts will be amended to reflect a broader application of control principles as they relate to information supplied to the Minister under the Act.
- Requesting that health authorities inform the Department about action taken or proposed to ensure that information submitted to the Department pursuant to the Act is valid, complete and accurate.

We also completed an examination of the related documented processes for surgical services used by CHA and CHR. The results are reported on page 134.

## Progress on accountability for we//net

*We//net is a major undertaking*

We//net is a major undertaking beginning in July 1997 with the vision of "better information for better health." The concept is a Province-wide network to enable information sharing among all stakeholders in the health system. About $117 million has been invested up to March 31, 2001.

*Expensing of we//net signalled value-for-money risk*

Last year we recommended the Department review the alignment of accountability for we//net to better ensure the achievement of benefits for costs incurred. The extent of expensing we//net spending signalled several issues:

- If the expensing pattern continued, there is risk of lack of demonstrated value-for-money from we//net.
- Funding was not aligned with responsibility and accountability for costs and benefits.

*Expensing of we//net costs continued*

The expensing of we//net continued in 2000-2001. Of $19.3 million expenditures reported by health authorities, they expensed $15.5 million and capitalized $3.8 million. The Department expensed $13.9 million out of $15.0 million. So far, less than 20% of the total spent on we//net is financially reported as having produced tangible future benefits.

*We//net is now the accountability of the Department*

The Department implemented our recommendation of last year. We//net is now the primary accountability of the Department. Starting in 2001-2002 all we//net funding and spending will stay within the Department.

*Evaluation of we//net to be completed*

And, in July 2001 the Department engaged a consulting firm to assess the we//net initiative. The assessment is to address the question of whether we//net is delivering the value that was projected and whether it should change direction.

We focussed on a concern reported five years ago about fragmented information systems across the health system. We//net had taken up the issue as part of creating better information systems.

## Time to assess information management for the health system

### Information systems management

**We recommend the Department of Health and Wellness, in collaboration with health authorities, assess the benefits and risks of the approach to information systems management in the health system and clarify the accountability of the chief information officer for health.**

*We//net works with health authorities to enhance information systems*

Through Alberta We//net (we//net), the Department works with health authorities to enhance their internal information systems, both clinical and administrative. We//net facilitates project identification and management of joint activities while health authorities fund procurement and manage implementation of systems. The idea is to take advantage of "common opportunities" and achieve cost-effective solutions to information needs. In so doing, duplicate and fragmented information systems would be eliminated or avoided.

*Benefits and risks of the present approach should be assessed*

The Department has not assessed both the benefits and the risks of the present "common opportunity" process. This might otherwise be the duty of a chief information officer (CIO) for the health system. However, it is not clear what the expectations are of the health CIO, whether, for example, the role only applies to the Department or extends to health authority systems and CIO duties in each health authority.

*Indications of success with potential to do more*

Under the existing structure and process, there are indications of success. We//net has facilitated the introduction or planned implementation of common vendor applications, in particular for clinical information systems. At the same time, there is potential for more that might be done in other areas (e.g. financial, payroll and human resource systems).

*Process not without risks*

The process is not without risks such as:

- Extended time to achieve results when it can take years to get to the stage of beginning to get a new common system in place to produce relevant and timely information for managing health resources.
- Not all those who might benefit from a common system development participate. What might be reported saved by we//net from common opportunities may be diminished by unknown costs from piecemeal system developments.
- Lack of incentive to invest in information systems, especially when there are competing demands for budget dollars.

*Time to evaluate*

In our view, now is the time for the Department to assess the benefits and risks in the way health information systems are developed and managed in consort with health authorities. There is the prospect of being assured that risks are acceptable, of improving the process for results, and clarifying the accountability of a CIO for health and health CIOs generally. This will require consideration of how a CIO role fits with the role of the Department in a regionalized structure.

## Significant reservations in my audit opinions on financial statements

*What we audited*

For the fiscal year ending March 31, 2001, we audited the financial statements of the Ministry, the Department, Persons with Developmental Disabilities Boards, and the Alberta Alcohol and Drug Abuse Commission, and received all necessary information. With most of these, a qualified audit opinion was necessary.

*Repeating an adverse opinion on Ministry financial statements*

I again issued an adverse audit opinion on the Ministry financial statements. The significant effects of non-consolidation of health authorities led to my opinion that the financial statements do not present fairly the financial position of the Ministry and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

*Progress not made*

Progress has not been made. Until the following things are addressed, unqualified audit opinions will not be possible.

*Figures change significantly with health authorities included*

**Non-consolidation of health authorities.** To provide a complete picture of the publicly funded health system, health authorities should be consolidated in the Ministry's financial statements as part of the reporting entity. If they were, numbers would change significantly.

Had entities been included in the financial statements, the total assets would increase by approximately $3,578 million, total liabilities by approximately $2,825 million and net assets by approximately $753 million. Similarly revenue would increase approximately $637 million and expenses by $526 million resulting in a decrease in the excess of expense over revenue for the year by approximately $111 million.

*Assets should be treated as assets*

**Capital assets not recorded.** Capital assets, which individually cost less than $15,000, have been expensed in the year acquired by the Ministry. As a result it is estimated that assets are understated and net liabilities are overstated by approximately $35 million and that expenses are overstated by approximately $6 million.

*Expenses incurred not in compliance with authority*

**Non-compliance with authority.** Adults were provided services that do not meet the definition of developmental disability under the *Persons with Developmental Disabilities Community Governance Act*. Accordingly, expenses have been incurred that are not in compliance with legislative authority. The estimated total cost is $3.4 million for fiscal year 2000-2001. Further, in the case of the Persons with Developmental Disabilities Calgary Region Community Board, there were services provided to children in certain facilities at a cost of approximately $1.1 million that was also outside the scope of the Act.

To resolve this matter, a recommendation was made to the Persons with Developmental Disabilities Provincial Board to complete its review of the system for determining eligibility of individuals for receiving services.

*Reporting should meet GAAP standards*

**Lack of disclosure of related party transactions.** Government accounting policy does not recognize health authorities as related parties. So Ministry and Department financial statements don't disclose transactions with them. But under Canadian generally accepted accounting principles, health authorities are related parties of the Ministry. A description of the relationship and extent of related party transactions should be in the notes to the Ministry financial statements.

*Other qualified audit opinions*

Qualifications were also made to my audit opinion on the Department financial statements for understating capital assets and not disclosing related party transactions. My audit opinion on the financial statements of the Alberta Alcohol and Drug Abuse Commission was qualified for under reporting capital assets by $1 million. My audit opinion on certain of the financial statements of Persons with Developmental Disabilities boards were qualified for not reporting certain costs and revenues.

## Clarity required in reporting financial results

Recommendation No. 19

**Reporting financial results**

**We again recommend the Department of Health and Wellness improve the reporting of financial results in the Ministry and Department financial statements.**

Financial reporting in the Department financial statements remains unchanged from the prior year. However, steps have been taken to improve financial reporting in the Ministry financial statements.

*Improved disclosure is noted*

In the prior year, the Ministry financial statement's reported the majority of expenditures under one expense caption "Health Services." This year disclosure of Ministry expenses was expanded and expenses are now presented in the same format as appeared in the Ministry's Business Plan and Government Estimates.

*The way expenditures are grouped and described obscures how money was spent*

However, inconsistent expenditure grouping remains in the Ministry and Department financial statements. The current presentation makes it difficult to understand how resources were consumed or allocated by the Department. If categories are too broad or inconsistently grouped, it's hard to know how money was used.

For example, Schedule 5 to the Department financial statements provides details of program expenses inconsistently grouped by funding recipient or program/initiatives. While health authorities are listed separately on this schedule, the amounts attributed to the health authorities do not comprise the total funding to each health authority. Funding to health authorities is disclosed in other line items on the schedule. Accordingly its difficult to determine just how much money went to each health authority.

In addition, certain key program expenses are not readily identified. For example, we//net expenses are reported under three captions, of which one is not identified as a we//net expense. This makes it impossible to identify total we//net expenses incurred in the year.

Further, there are two expense line items referred to only as *dedicated program funding*. Such description does not enable a reader to differentiate or understand such items.

## Results of operations not fully reported

**Performance reporting by PDD Boards**

**We recommend the Persons with Developmental Disabilities Provincial Board continue work with community and facility boards to improve performance reporting.**

*Need to align budgeting and accounting principles*

Progress has been made in financial reporting by PDD Boards in terms of disclosure of additional cost information in schedules and notes to the financial statements and reporting of expenses by programs and/or activities. However, there are opportunities for building on what has been done to better align budgeting and accounting principles.

*Exclusion of costs and revenues*

While PDD Boards disclose the information in notes to financial statements, they did not, in accordance with Canadian generally accepted accounting principles, include certain items in their balance sheets and statements of operations since they were not in their budgets. These were accrued manpower costs, shared service costs, and surplus amounts retained by contracted agencies. Where amounts were material, my audit opinions on PDD Board financial statements were qualified.

My audit opinion on the financial statements of the Michener Centre Facility Board was further qualified for excluding funds of $1.2 million that were integral to the program delivered at the Michener Centre. My opinion was also qualified for statements that excluded fee revenues collected from residents amounting to as much as $794,000.

Accordingly, improved financial reporting should be pursued by the PDD Provincial Board as part of collaborative work among all PDD Board financial officers and managers. This would include, for example:

- Recording accrued manpower, shared service costs, and agent surplus retention reserves in the accounts of PDD Boards
- Reporting of the cost per person to assist in the stewardship of resources and accountability for results achieved for costs incurred

## Canadian Blood Services – safeguarding Provincial interests

### Canadian Blood Services

**We recommend the Department of Health and Wellness clarify the extent of control over, interests in, and potential liabilities related to the Canadian Blood Services.**

*$90 million provided to the Canadian Blood Services*

The Department provides significant funding to the Canadian Blood Services (CBS), approximately $90 million during 2000-2001. A clear understanding of the relationships between the Provinces and the CBS is important to mitigate risks since the Provincial and Territorial Ministers remain responsible for the overall integrity of the blood system.

*Memorandum signed*

In 1997, the federal, provincial and territorial governments (except Quebec) signed a Memorandum of Understanding regarding their respective roles and responsibilities in a renewed blood system. The CBS was incorporated on February 16, 1998 by the participating governments as a not-for-profit corporation under the *Canada Corporations Act* to deliver safe and secure blood service.

*Negotiations required if one withdraws*

The Memorandum sets out that in the event that a province withdraws from the CBS, the province shall enter into negotiations with the remaining members of the CBS for the apportionment of any assets and current or contingent liabilities.

*To reduce uncertainty, parties should define how net assets would be divided*

The Department is working to clarify its control over, and interest in, CBS in conjunction with other provinces and territories. We encourage continued discussions and the Department obtaining a written agreement on how assets and liabilities will be divided in the event that one party leaves the CBS. This is necessary for the Department to estimate and limit its exposure to liabilities and obtaining its share of interest in the CBS.

---

## Results of health authority audits

Of 17 RHAs, the Auditor General is the auditor of 11 and the auditor of both Provincial health boards (Cancer, Mental Health). The results of audits of all health authorities for the year ending March 31, 2001 are included in this Report in summary form. This covers the entities I have audited and the six RHAs where I am not the appointed auditor.

*All but one received unqualified audit opinions*

With the exception of Chinook Regional Health Authority, page 133, all health authority financial statements received unqualified audit opinions. The financial position, results of operations, and changes in financial position were presented fairly in accordance with Canadian generally accepted accounting principles.

Annual attest audits of financial statements are not designed to assess all key systems of control and accountability. However, auditors of health authorities communicate findings, if any, to management should weaknesses come to their attention when auditing the financial statements.

*Recommendations made to improve control*

As in prior years, observations and recommendations to improve control were made to health authorities in areas such as budgeting, human resource management and payroll, capital assets, information systems management, cash, purchases and payables, contracting, and accounting policies. This indicates that health authorities still need to be vigilant in maintaining good systems of control.

*Vacation pay- an indication of human resource management risk*

As reported to health authorities in prior years, several RHAs again needed to address risks inherent in increasing vacation pay liabilities. Such risks include a work force not in balance with workload, paying vacation benefits at higher rates, increased overtime, or greater use of other leave.

Vacation pay liabilities continue to grow at a rate faster than an increase in salaries and benefits. Overall, for 2000-2001 there was a 17% increase in total accrued vacation pay liabilities reported by health authorities (growing from $124 million to $145 million as at March 31, 2001) compared to a 13% increase in reported salary and wage expenses (increasing from $1.9 billion in 1999-2000 to $2.2 billion in 2000-2001). Nine health authorities experienced a higher rate of growth in the vacation liability than was experienced in the increase in salary and benefit costs.

## Chinook Regional Health Authority

### Long-term care facility

**We again recommend the Chinook Regional Health Authority continue to work with the Department of Health and Wellness and Alberta Infrastructure in order to clarify the nature of the Authority's future responsibilities for, and control of, one long-term care facility.**

*Audit opinion on financial statements qualified for overstatement of assets*

The Chinook Regional Health Authority recorded a long-term care facility in its financial statements. The facility does not meet the definition of a capital asset because it is not owned or controlled by the Authority. Capital assets and unamortized external capital contributions were overstated by $27.3 million. Accordingly, my audit opinion on the financial statements was reserved.

*Its not clear just who is responsible for the facility*

Since the Authority is accountable for service delivery in the region, it has endeavoured to clarify responsibility for the facility. We understood that the Authority, Alberta Infrastructure and the voluntary health service operator have not entered into a suitable arrangement necessary for the Authority to own or control the 210 long-term care bed facility. Absent a suitable arrangement conveying control from the Department of Infrastructure, it is not clear if the Authority is responsible for the governance, control and accountability of the facility.

## Calgary Health Region and Capital Health Authority – surgical service contracting

*Review of policies and process*

We completed a review of the Calgary Health Region (CHR) and Capital Health Authority (CHA)– Surgical Services Documented Contracting Process. Our review focussed on the documentation of policies and processes. Special consideration was given to the information needs relating to section 8 of the *Health Care Protection Act*, the assessment criteria and contract guidelines issued by the Department.

*Overall a sound process*

Overall, we considered the documented processes in CHR and CHA sound, but did identify opportunities for improvement. We made recommendations to both CHR and CHA.

*Limitation of review*

Our review of policies and processes was of necessity limited to the documented policies and processes related to surgical service contracting. The design of the policies and processes was the first step in the contracting process and the documentation of these policies and processes was subject to our review. In the future, we will conduct a further review to examine the application of these policies and processes in awarding, monitoring and evaluating actual surgical service contracts.

**Recommendation No. 20**

**Surgical service contracting—conflict of interest**

**We recommend the Calgary Health Region and Capital Health Authority enhance their conflict-of-interest processes:**

- **by extending private interest disclosure requirements to senior management who are in a position to influence contract decisions, and**
- **by using an independent third-party review, as part of a formalized appeal mechanism, when employees operate private practices or clinics that contract with their employers.**

**We believe this recommendation should apply to all regional health authorities.**

*Need to extend disclosure requirements*

The CHA's corporate administrative procedures require its personnel who are involved in negotiating, awarding or managing contracts or purchases to prepare a conflict of interest declaration annually. We support this annual disclosure requirement and believe it should be extended to senior management and others who have a fiduciary responsibility to the CHA and who may influence, directly or indirectly, the CHA's actions. In addition to the CHA's executive team this would include department heads.

The CHR's Conflict of Interest Bylaw requires annual disclosure of a board member's private interests that could affect the deliberations, decisions and business objectives of the CHR, which is similar to, but less onerous than, the disclosure that the *Conflict of Interest Act* requires. We support the CHR's annual disclosure requirement and believe it should be extended to senior management, officers, and others who have a fiduciary responsibility to the CHR and who may influence, directly or indirectly, the CHR's actions. These individuals would likely include the CHR's executive team and department heads.

Extending the disclosure requirements ensures that staff will continually consider the issue of conflict of interest.

The processes at CHR and CHA should facilitate using an independent third-party, such as the Ethics Commissioner, to review potential conflicts of interest as part of a formalized appeal mechanism.

Regional health authorities depend on physicians for services and management. Physicians are often employed in a management capacity by regional health authorities because of their medical expertise. These same physicians often operate their own private practices or work for private clinics. Potential conflict situations also exist where employees of regional health authorities, who are part of the decision-making process, are also shareholders in private clinics that contract with their employers.

We have identified the Ethics Commissioner because he has the qualifications and expertise, and is sufficiently familiar with the operations of regional health authorities, to conduct this work. However, his mandate currently does not extend to regional health authorities.

### Surgical service contracting—performance standards

**We recommend the Calgary Health Region and Capital Health Authority establish a comprehensive set of outcome-based performance measures for surgical facility services and incorporate these standards of performance into ongoing monitoring of contracted facilities.**

*Standards missing*

Establishing performance measure for surgical facility services would enable CHR and CHA to compare performance between public and private facilities in order to be assured of cost-benefits. The absence of performance standards reduces the ability to evaluate the relative performance of both private and public facilities.

**Surgical service contracting—documentation of policies and procedures**

**We recommend the Calgary Health Region and Capital Health Authority revise documented policies and procedures to include process changes resulting from the *Health Care Protection Act* and the assessment criteria and guidelines issued by the Department of Health and Wellness.**

*Update policies and procedures*

CHR and CHA had documented policies and procedures for contracting; however, they had not yet been formally revised to reflect all of the process changes resulting from the new Act and guidelines issued by the Department. We believe the contracting process could be strengthened through the application of a formalized decision-making framework to guide decisions as to whether services should be provided in owned facilities or contracted out.

## Mistahia Regional Health Authority

Last year we reported the results of an operational review of the Mistahia Regional Health Authority. This resulted in 19 recommendations to the Board. We will follow these up in the near future.

# Human Resources and Employment

## Overview

The Ministry provides a wide range of programs and services to Albertans delivered through the Department of Alberta Human Resources and Employment, Minister's Employability Council, Occupational Health and Safety Council, Alberta Labour Relations Board, Workers Compensation Board (WCB), Appeals Commission of the WCB and the Personnel Administration Office (PAO).

The Ministry's programs

- provide Albertans in need with financial assistance and career planning, training, employment and other services
- support Alberta workers and employers through safe and healthy workplaces, fair labour relations, and effective employment standards and practices

In addition, PAO works with departments to develop government-wide human resource strategies and policies.

Total operating expense for the Ministry was over one billion dollars in 2000-2001, comprised of the following:

| | 2000-2001 (in millions of dollars) |
|---|---|
| Income support to individuals and families | $ 684 |
| Training and employment support | 265 |
| Ministry support services | 25 |
| Workplace services | 16 |
| Personnel Administration Office | 8 |
| Support for dependent adults | 5 |
| Labour relations adjudication | 2 |

The Ministry also provides administrative support services to the Ministries of Health and Wellness and Children's Services on a cost recovery basis. During 2000-2001, the Ministry recovered approximately $21 million from these Ministries.

Total revenue for the Ministry was $473 million in 2000-2001, comprised mainly of transfers from the Government of Canada ($461 million).

A significant aspect of the Department's activities is providing training and employment support programs to Albertans through the use of external training providers. Effective management of these programs is required to ensure that the services are provided in accordance with the terms of the contract. External training providers include private agencies, private vocational schools, post secondary institutions and public high schools.

## Summary of audit results

In this section, we report the observations and recommendations resulting from our review of the Department's contract management controls for the training and employment support programs delivered in partnership with external training providers.

This section also includes the results of our follow-up of the prior year recommendation that the Department improve its procedures to monitor compliance by training providers with the terms of the Skills Development Program.

In the Cross Government section of this report, we comment on the observations resulting from a follow-up of our prior year recommendations to improve the government's employee performance management systems.

## Scope of work

In addition to an audit of the Ministry's financial statements, we completed the following work:

- an audit of the Canada–Alberta Agreement on Labour Market Development claim for the year ended March 31, 2001
- an audit of the Annual Statement of Expenditures for the Canada-Alberta Agreement on Employability Assistance for People with Disabilities claim for the year ended March 31, 2000
- application of specified auditing procedures to the key performance measures included in the Ministry's 2000-2001 annual report
- a review of the Department's systems to administer the training and employment support programs delivered in partnership with external training providers
- a follow-up of the prior year's recommendation that the Ministry improve the procedures to monitor compliance by training providers with the terms of the Skills Development Program

- a follow-up of our prior year recommendations that the government improve its employee performance management systems

## Preparation of claims for federal cost-sharing

In the prior year, we recommended that the Department strengthen its procedures to prepare, review and provide documentary support for claims on the federal government for cost-shared programs.

I am pleased to report that none of the deficiencies identified last year were found during this year's claims audits.

## Outsourced Computer Services

### Computer control environment

**We recommend the Department obtain independent assurance on the control environment of its computer service provider.**

*The Department outsources two of its financial systems*

Computer services are integral to supporting the Department's delivery of services to its clients. The operations and support for two of the Department's key financial systems, the Departmental Accounts Payable System (DAPS) and Local Income Support Applications (LISA), are outsourced to a computer service provider.

*Independent assurance should be obtained on the provider's control environment*

The Department is responsible for ensuring that controls, including those that reside at its service provider, are effective in protecting the integrity and confidentiality of data and that information is processed completely and accurately.

The Department is not obtaining assurance from an independent source that the service provider's control environment is operating effectively.

*Assurance can be obtained through a 5900 Report or a review conducted by an independent audit function*

Independent assurance may be obtained from an auditor's report on control procedures, prepared in accordance with section 5900 of the Canadian Institute of Chartered Accountants Handbook. The service provider's external auditor usually prepares the 5900 Report. Assurance can also be obtained through a review of the service provider's systems of controls performed by an independent source, such as the Department's internal audit function.

# Review of Training and Employment Support Programs

## Client information

Recommendation No. 21

**Safeguarding client information**

**We recommend the Department:**

- **review the access that training providers have to client information and limit training providers' access to only the information required to fulfill their responsibilities,**
- **monitor enquiries to sensitive information to assess whether enquires are appropriate, and**
- **maintain adequate documentation of the procedures performed to ensure that all client information is returned to the Department and deleted from training providers' systems upon contract completion.**

*CAIS is a key system used to manage the Department's training programs*

The Career Assistance Information System (CAIS) is a key system that provides information used in the management of the Department's programs (Skills for Work, Training on the Job, Self-Employment, Job Placement services and Skill Development Program). The system enables the Department to track case information on clients, verify training provider payment information, and compile performance information.

*Training providers have access to the case profile of the Department's clients*

Training providers can access the case profile of anyone on the Department's CAIS system, including those individuals for whom they are not contracted to train, provided they have an individual's social insurance number.

*Information access should be restricted to what trainers need to know*

Training providers' access to confidential client information should be restricted to what they need to know. Access privileges or profiles should be assigned based on the nature of the services contracted and enquiries by all CAIS users to sensitive client information should be monitored to assess whether access is for valid business purposes.

*Documentation should be maintained to evidence the protection of confidential client information*

The Department should also ensure procedures are performed and documented to evidence compliance with the Department's policy for safeguarding confidential information when a contract ends. Our review found that contract managers are not required to document the procedures performed to ensure all client information is returned to the Department and deleted from training providers' systems when contracts end. The Department's internal audit review program also did not include contract completion procedures to ensure compliance with the Department's policy on safeguarding client information.

The proper retrieval and destruction of records is critical to the protection of client information in accordance with the *Freedom of Information and Protection of Privacy Act*. Specifically, section 36 of the Act establishes a duty of care for the protection of personal information by making reasonable security arrangements against such risks as unauthorized access, collection, use, disclosure and disposal.

## Skills Development Program (SDP)

Recommendation No. 22

**Skills Development Program**

**We again recommend that procedures to monitor compliance by training providers with the terms of the Skills Development Program be improved.**

*The SDP is delivered by educational institutions*

The SDP provides basic education, upgrading, post-secondary and apprenticeship instruction to eligible candidates. Under the Program, the Department pays a fee per student to educational institutions and a living allowance to students.

*Progress towards implementation of the prior year recommendation*

The Department made progress towards implementing the prior year recommendation. A new Memorandum of Understanding has been signed with the majority of the larger training providers and the Department expects to sign contracts with these providers by April 2002. The Department has taken action to improve monitoring of the larger training providers.

*Private vocational schools have not signed the new Memorandum or a contract*

However, at the time of our follow-up review, 95 private vocational schools, each serving less than fifty SDP clients, had not signed either the new Memorandum or a contract.

*Monitoring of smaller training providers should be improved*

The Department should also improve its monitoring of smaller training providers. For example, we found that the Department had performed only three audits of training providers with less than fifty SDP clients during the 2001 fiscal year.

*Monitoring of educational institutions also needs to be improved*

We also found that monitoring of educational institutions, as set out in the "Certification Application for the Purposes of the Skills Development Program," was not being performed. The certification application identifies the following monitoring to be performed:

- collecting monthly student reports
- setting performance expectations for providers
- monitoring performance outcomes
- evaluating renewal of funding annually through a Certification Review Committee

Next year, we will follow up progress in fully implementing our recommendation.

# Workers' Compensation Board – Alberta

## Financial statements

The *Workers' Compensation Act* requires that the financial statements of the Workers' Compensation Board (WCB) be audited at the direction of the Auditor General by an independent audit firm appointed, in consultation with the WCB, by the Auditor General. The Act also requires that the audit firm address their auditors' report to the Workers' Compensation Board of Directors and the Auditor General.

In accordance with the Act, a private sector audit firm completed the audit of the WCB's financial statements for the year ended December 31, 2000.

## Committee Review Reports

The reports of the Members of the Legislative Assembly Workers' Compensation Board Service Review Input Committee, chaired by Red Deer South MLA, Mr. Victor Doerksen, and the Workers' Compensation Board Appeal System Review Committee, chaired by retired judge, Mr. Samuel Friedman, Q.C., were issued in the fall of 2000. The reports recommended significant policy, legislative and regulatory changes to improve the service delivery and accountability of the workers' compensation system.

*Government's response to recommendations*

The government accepted or accepted in principle 49 of the 59 recommendations made by the two committees.

*Establishment of an accountability framework*

One of the changes announced by the Minister was the establishment of an accountability framework by January 1, 2002. In addition to defining roles and responsibilities, the framework will include establishing measures and targets to monitor performance in key areas by the WCB and the Appeals Commission.

*Stakeholder input will be obtained*

Stakeholders will be given an opportunity to discuss the recommendations and provide input on the measures and targets to be included in the framework.

*My Office will participate in the accountability framework*

My Office has accepted the Minister's request to perform specified auditing procedures on the performance measures of the WCB and the Appeals Commission. As the work on performance measures progresses, we will assess the systems underlying the performance measures and accountability framework, and make recommendations where we believe there are opportunities to improve those systems. We believe that our involvement will add credibility to the public reporting of the performance of these organizations and improve their accountability to the Legislative Assembly and other stakeholders.

## Ministry financial statements

We conducted an audit of the Ministry's financial statements as at and for the year ended March 31, 2001. My auditor's report contained a reservation of opinion as a result of the Ministry applying a corporate government minimum threshold to capitalize assets.

In accordance with corporate government accounting policies, capital assets purchased with a cost of under $15,000 are expensed in the year acquired, rather than being capitalized and amortized over their useful lives. Consequently, a significant amount of resources available to the Ministry have been recorded as if they have been consumed.

## Other entities

Financial audits for the following entities were also completed for the year ended December 31, 2001:

Government of Alberta Dental Plan Trust
Government Employees Extended Medical Benefits Plan Trust
Long Term Disability Income Continuance Plan-Bargaining Unit
Long Term Disability Income Continuance Plan-Management,
    Opted Out and Excluded
Joint Standards Directorate

# Infrastructure

## Overview

During 2000-2001, according to the Ministry's business plan, it was responsible for:

- providing safe and effective highways within the Province
- ensuring traffic safety
- providing facilities to government departments, Crown boards and agencies
- funding and developing water management facilities
- funding and developing infrastructure facilities managed by other organizations such as school jurisdictions, post-secondary educational institutions, health authorities and municipalities
- providing central services to government departments including vehicle fleet operations, accommodation, and air transport

During 2000-2001, the Ministry was also given the responsibility for developing and implementing an energy rebate program to assist Albertans with the cost of heating. The Ministry paid rebates to residential consumers, businesses, and not-for-profit organizations.

*The Ministry was responsible for the government's capital planning initiative*

The Ministry was also primarily responsible for the cross-government initiative of capital planning. The overall goal of this initiative is to ensure effective, innovative capital planning and funding decisions. Strategies include preparing annual corporate overviews to facilitate planning, multi-year infrastructure budgeting, implementing effective infrastructure management systems with common performance measures and effectively managing physical infrastructure.

*The Ministry of Transportation is now the lead Ministry for the government's capital planning initiative*

In March 2001, as part of government restructuring, the government created the Ministry of Transportation. The Ministry of Transportation is now the lead Ministry for the cross-government capital planning initiative. The Ministry of Infrastructure still provides support for this initiative. The Ministry of Transportation is now also responsible for providing safe and effective highways within the Province, ensuring traffic safety, and funding and developing water management facilities.

The following table summarizes the Ministry's operating expenses, capital investment, and revenues from external sources for the year ended March 31, 2001:

| | Operating Expenses | Capital Investment |
|---|---|---|
| | (in millions of dollars) | |
| **Expenses:** | | |
| Inter-Ministry Services | $ 97 | $ 14 |
| Transportation Systems and Services | 855 | 319 |
| Construction and Upgrading of School Facilities | 294 | - |
| Municipal Water/Wastewater Grants | 24 | - |
| Construction and Upgrading of Health Facilities | 280 | - |
| Upgrading Senior's Lodges | 16 | - |
| Management of Properties | 182 | 1 |
| Construct and Upgrade Owned Facilities | 32 | 22 |
| Gas and Electricity Rebates | 790 | - |
| Water Infrastructure Facilities | - | 29 |
| | $ 2,570 | $ 385 |
| **External Revenues** | $ 60 | |

*The Ministry owns and manages the majority of the government's capital assets and provides funding for health and educational facilities*

The Ministry is the major owner of infrastructure in the government. The approximate net book value of the government's capital assets amounted to $8.0 billion at March 31, 2001. Of this amount, the Ministry owns and manages capital assets with a net book value of approximately $5.9 billion. Most of the remaining government assets are held by the Ministries of Environment (primarily land and water management systems) and Community Development (heritage buildings and collections, and social housing).

The following table provides details of the assets the Ministry owns and manages.

| Classification of asset | Net Book Value Total | % |
|---|---|---|
| | (in millions of dollars) | |
| Highways | $ 3,485 | 59.0 |
| Bridges | 444 | 7.5 |
| Land | 913 | 15.5 |
| Buildings | 833 | 14.1 |
| Computer equipment and system | 27 | 0.5 |
| Equipment | 18 | 0.3 |
| Other (trailers, leasehold improvements and airplanes) | 28 | 0.5 |
| Dams and water management systems - work in progress | 152 | 2.6 |
| Total | $ 5,900 | 100.0 |

Source: *Ministry of Infrastructure March 31, 2001 Financial Statements*

The estimated net book value at March 31, 2001 of health and educational facilities funded by the Ministry is as follows:

| | (Billions of dollars) |
|---|---|
| School facilities | $2.4 |
| Post-secondary facilities | 2.2 |
| Health facilities | 2.5 |

## Summary of audit results

*We reviewed the Ministry's process for preparing business case analyses*

We reviewed the contracts and funding arrangements for infrastructure projects to determine whether the Ministry has a process for preparing appropriate business case analyses to support these projects. The Ministry has a process for analysing and evaluating proposals from potential contractors and service providers. However, we noted that the Ministry could improve its process for preparing business case analyses. Specifically, the Ministry should establish and enforce its requirements for preparing business cases, perform comprehensive analyses to support infrastructure projects, and formalize the risk assessment process in partnership projects.

*We reviewed the Ministry's system for generating deferred maintenance information*

We reviewed the processes and information systems the Ministry uses to identify and report on deferred maintenance for infrastructure it owns and supports. Our goal was to learn if the Ministry's information systems could generate reliable information on deferred maintenance. The Ministry has performance measures for condition, utilization, and functional adequacy of its infrastructure, which it plans to include in its annual reports. These measures show how effectively the Ministry has maintained its infrastructure. But the Ministry does not have reliable information on the extent or cost of deferred maintenance because its current systems are not capable of generating reliable information.

*We followed up on our recommendations on performance measures, the capital planning initiative, long-term capital asset plans, and infrastructure management systems*

In 1997-1998, we made a recommendation relating to performance measures and in 1999-2000, we made recommendations relating to the Ministry's capital planning initiative, long-term capital asset plans, and infrastructure management systems. We reviewed the Ministry's progress in implementing our recommendations. The Ministry has implemented our recommendations on performance measures and the capital planning initiative. It has made progress in implementing our recommendations on long-term capital asset plans, and infrastructure management systems. However, further work is required to fully implement them.

## Scope of work

In addition to the annual financial audit, we completed the following work:

- application of specified audit procedures to key performance measures included in the Ministry's 2000-2001 annual report
- an examination of the Ministry's process to prepare business case analysis for infrastructure projects
- an examination of the Ministry's process to identify and report deferred maintenance on infrastructure it owns and supports
- a follow-up on the Ministry's progress in implementing our recommendations on performance measures, capital planning initiative, long-term capital asset plans, and infrastructure management systems

---

## Energy rebate programs

*The cost of the program is approximately $1.0 billion*

During 2000-2001, the Ministry introduced the Natural Gas, Propane and Fuel Oil Rebates program as well as the Market Transition Credit Program. The total expenditure for these programs during 2000-2001 was $790 million. Payments in the fiscal year 2001-2002 to the end of July totalled $197 million. The natural gas, propane, and fuel oil rebates were given in respect of the four-month period January to April 2001. The Ministry put these programs into effect very quickly, assisted by the utility companies who agreed to credit the amounts to customers' bills. It also engaged a consulting company to administer certain elements of the program.

*The Ministry should consider our recommendations in the design and administration of new programs*

The following recommendations arose from our audit of the expenditures under the Natural Gas, Propane and Fuel Oil Rebates Program. We recognize that this program has ended. However, the government has enacted the *Natural Gas Price Protection Act*, and it may have additional programs in the future. Our recommendations reflect principles of good business practice and should be considered in the design and administration of any new program.

## Approval of changes to the criteria

### Grant criteria and Minutes

**We recommend that changes to grant criteria be approved in writing by the Minister prior to any grants being paid pursuant to the changed criteria. We also recommend the Ministry keep minutes of meetings to provide evidence of decisions and prevent loss of knowledge that could be useful in other programs.**

*The Minister formally approved the changes after the program ended*

The Minister of Infrastructure issued two Ministerial Orders delegating to certain Ministry officials the authority to pay the natural gas, propane and fuel oil rebates according to the criteria attached to those Ministerial Orders. While the Ministry was putting the program into effect, it identified a number of issues that resulted in changes to the criteria. The Minister did not approve these changes in writing until May 16, 2001, when amended Ministerial Orders were issued. Accordingly, any grants made before the changed criteria were implemented on May 16, 2001 (when they were officially implemented by the Ministerial Orders) were unauthorized to the extent that they were inconsistent with, or in excess of the limits prescribed by, the criteria in the original orders dated February 12, 2001.

*Sound business practice requires that changes to criteria set out in Ministerial Orders should be approved in writing*

The Ministry told us it had to make many decisions very quickly and faced tight timelines in delivering the program; therefore, it asserts it would have been impractical to obtain amended Ministerial Orders. In my view, the Ministry, to comply with the criteria in the Ministerial Orders, as well as sound business practice, should have obtained the Minister's written approval prior to making payments pursuant to the changed criteria.

*The Ministry's process for making changes to the program*

The Ministry used the following process to make changes to the program:

- The Ministry formed a committee made up of the Deputy Provincial Treasurer and the deputy ministers of Infrastructure, Resource Development, and Government Services to oversee the program. We were advised that the committee met regularly to discuss and make changes to the criteria. However, it did not keep minutes of its meetings.
- The Ministry noted the changes the committee agreed to make in documents entitled *Frequently Asked Questions* (*FAQs*), which it posted on the government's web site. We were advised that the Minister of Infrastructure approved the *FAQs*; but the approval was not in writing.

- The Minister of Infrastructure issued amended Ministerial Orders on May 16, 2001 to approve the changes the Committee made.

*The Ministry did not keep minutes of meetings*

The Ministry does not have any written evidence of the changes the Committee agreed to make, as the Committee did not keep minutes of its meetings. Aside from providing written evidence of decisions, minutes of meetings provide useful information of how the program was run, which could be invaluable if other programs are implemented. Documented decisions are also useful if the Ministry later needs to refer to the rationale of decisions made.

## Monthly reporting process for utility companies

### Monthly reporting process

**We recommend the Ministry of Infrastructure establish an appropriate monthly reporting process for utility companies to ensure that payments to consumers comply with Ministerial Orders and expenses are properly recorded in the accounts.**

*The Ministry made advance payments to utility companies*

The majority of the rebates were paid to consumers through the monthly billings of utility companies. A consulting company administered the elements of the program that required consumers to apply for the rebate. Payments for natural gas rebates flowed through the utility companies. The Ministry paid rebates directly to the consumers of propane and fuel oil. The Ministry made advance payments to the utility companies based on estimated natural gas consumption and the number of residential customers.

*The system of internal control did not monitor payments by utility companies*

The Ministry did not specify any reporting by the utility companies to enable the Ministry to accurately account for the advances made to them. In addition, the system of internal control the Ministry established did not monitor whether payments made by the utility companies went to eligible users.

*The Ministry is developing an audit process to check the validity of payments made by utility companies*

The accounting adopted by the Ministry considered the amounts advanced accurately reflected the cost of the program. We understand that the Ministry is developing reconciliation and audit processes, which it plans to carry out later in the year. The Ministry considers that this will allow it to check the validity of the payments. However, in our view, a program that costs nearly $1.0 billion should be subject to ongoing monitoring during its operation.

*Monthly reporting by utility companies would have improved financial accounting*

The accounting could have been improved through monthly reporting by utility companies of consumption and the number of residential customers. Also, the information could have been reviewed for anomalies and compared to statistics, such as average daily temperature, for reasonableness.

## Business case analysis

*The Ministry uses P3s to develop long-term care facilities*

Each year the Ministry enters a number of contracts for capital projects. It also funds a number of capital projects for health and school facilities. Recently, the Ministry has accepted public-private partnerships (*P3*) as an alternative approach to develop long-term care facilities. The first project approvals occurred in the 1999-2000 fiscal year. Since that date, the Ministry has approved several *P3* projects totalling $92.5 million, of which $49.7 million has been spent to March 31, 2001. The Ministry is also considering giving higher priority to project proposals for school facilities that contain innovative financing arrangements.

*Capital projects should be justified with sound business cases*

It is important that capital projects should be justified with sound business cases that assess the project's financial, social and economic impacts. A business case is a proposal that analyses the costs, benefits and risks associated with the proposed investment, including reasonable alternatives.

### Audit scope

We reviewed the contracts and funding arrangements the Ministry has in place for infrastructure projects. Our goal was to determine whether the Ministry has a process for preparing appropriate business case analyses to support these projects. We examined the business cases for a sample of projects from across the Ministry.

## Requirements for preparing business cases

Recommendation No. 23

**Business case analyses**

**We recommend that the Ministry of Infrastructure establish and enforce its requirements for preparing business case analyses, including the preparation of a public sector comparator for partnership projects.**

*Establishing and enforcing requirements ensure decision makers have the necessary information*

Establishing and enforcing the requirements for preparing business cases ensures decision makers have the necessary information on the cost effectiveness of all reasonable alternatives. The requirements should deal with the following matters:

- the form and content of business case analyses
- the size of projects for which formal business cases are required
- comparison of life cycle costs of all reasonable alternatives
- preparation of public sector cost comparator for *P3* projects
- identification and analysis of risk factors
- analysis of qualitative factors
- cost-benefit analysis
- assignment of responsibility for preparing business case analysis

*Challenge process ensures due diligence*

The requirements should also include processes to challenge, test and review business cases to ensure that appropriate due diligence is carried out. Standard templates are a useful tool to ensure that all analyses are prepared on a consistent basis, and comply with all requirements.

*P3s are relatively new*

Public-private partnerships are relatively new arrangements for financing public sector capital projects and many jurisdictions, both in Canada and abroad, are dealing with these types of arrangements. Our research indicates that many of these jurisdictions develop a public sector cost comparator against which the proposals of potential partners are measured. A public sector comparator is a benchmark against which value for money is assessed. It is typically a cost estimate based on the assumption that assets are acquired through conventional funding and that the procurer retains significant managerial responsibility and exposure to risk.

*Criteria for public sector comparator*

The public sector comparator should meet the following criteria to ensure that the comparison to the *P3* proposal is appropriate:

- The calculations must be internally consistent and sufficiently accurate for the purpose.

- The assumptions on which the public sector comparator is based should be consistent with those underlying the *P3* proposal.
- The cost assumptions underlying the public sector comparator should be reasonable, should include allowance for risk, and should reflect a reasonable estimate of the likely net total costs if the public sector option were actually implemented.
- The sensitivity of the comparison to changes in key assumptions should also be included.

*Capital manuals for health and school facilities need improvements*

The Ministry has revised its capital manuals for health and school facilities. The revised manuals support the preparation of a sound business case but would be improved if they included the requirements noted above and standard templates for preparing business case analyses. These manuals should also include guidance on the process to challenge, test and review the business cases.

*Capital projects procedures manual does not include requirements for business case analyses*

The Ministry performed comparative analyses on several projects it undertook on its own behalf. However, the Capital Projects procedures manual the Ministry uses for its internal projects does not include any requirements for preparing business case analyses.

The Ministry has developed two key documents relating to partnership projects. The first one is entitled *Partnerships between Regional Health Authorities and Private, Public or Voluntary Sector Organizations to Develop Long Term Care Facilities*. This document states that a public-private/voluntary partnership must offer the best solution based on a careful evaluation of alternative methods of delivering the infrastructure project, and clearly demonstrate a benefit to Albertans. The second one is the draft *P3 Process Manual*. This Manual provides information for regional health authorities interested in establishing partnerships. These two documents support the preparation of a sound business case. But they should also provide guidance for preparing a public sector comparator.

We made a similar recommendation in the Cross-Government section on page 33.

## Business case analyses—partnership projects

### Cost-benefit analyses and risk assessment

**We recommend the Ministry of Infrastructure ensure the life cycle costs and benefits of partnership arrangements are compared to those of conventional alternatives and the risk assessment process is formalized.**

*Public sector comparator helps form a judgement about the relative value for money*

Other public sector jurisdictions that use *P3s* to finance capital projects develop a public sector cost comparator against which they measure the proposals of potential partners. The purpose of a public sector comparator is to help the procurer form a judgment about the relative value for money of a proposed *P3* and a conventionally financed alternative.

*Strategies for managing risks*

*P3* proposals should also be supported with comprehensive risk analysis. The purpose of risk analysis is to show how the risks that exist in *P3s* have been mitigated or, if they have not been, how a business case is made for accepting them and that strategies have been prepared for managing them. The risks in *P3s* are financial, construction, contractual, and reputation risks. Such analyses should also clearly document which party bears each risk and who is best able to manage it.

*Proper cost-benefit analyses not done*

We examined several *P3* projects for long-term care facilities and noted that the financial analysis was done for all projects. However, these analyses did not compare the life cycle costs and benefits of the *P3s* to those of the conventional alternatives. Such a comparison is necessary to properly assess the merits of a *P3* proposal. The analyses the Ministry approved consisted of a comparison of the number of beds that a regional health authority could obtain through the conventional alternative compared to the *P3* approach, or a comparison of the projected capital cost of the *P3* arrangement compared to the conventional alternative.

*The Ministry did not analyze life cycle costs and benefits*

The cost per bed the private sector partners proposed was significantly lower than the conventional alternative due to a number of factors including differing construction standards and space. However, as the Ministry did not analyze the life cycle costs and benefits, it did not demonstrate that the *P3s* it approved are better alternatives than the conventional ones.

*The Ministry needs to document risk analysis*

The Ministry did not document the risk analyses that were performed on approved *P3* projects. We were advised that the financial viability of the private sector partner was one of the criteria the Ministry considered in the evaluation process. However, we were unable to determine whether the Ministry investigated the long-term financial viability of the potential partners or whether the partners' equity contributions led to an appropriate allocation of risks and returns.

In one of the projects we examined, the Ministry subordinated its interests to a financial institution. On the same project the partner's equity contribution was "in kind project development services." Also, the same private sector partner participated in more than one project. These circumstances suggest the partner may not have the capital backing to be a viable partner over the life of the project. The Ministry did not have the documentary evidence to show it had considered and assessed the financial risks arising from this arrangement.

*The Ministry has set up a P3 evaluation project*

The Ministry set up a *P3* Evaluation Project in April 2001 to analyse costs, life cycle and other factors in *P3* projects and compare them to those of a traditional project of similar scope. It will determine whether the *P3* model is a more economical way of building long term-care infrastructure when compared with the traditional model and assess whether the Province is getting good value for money.

## Business case analyses in leasing

### Long-term leases

**We recommend the Ministry of Infrastructure perform business case analyses of alternatives to long-term leases. Also, the Ministry should ensure that assets, liabilities and expenses arising from its funding arrangements are reported in its financial statements based on the substance of the transactions.**

*Business case analyses not done*

We selected a sample of multi-year lease arrangements entered into during the year. The lease terms ranged from 5 to 11 years. The cost to the Province over the terms of these leases exceeds $45 million. The Ministry did not perform business case analyses of alternatives such as build/leaseback or build/own.

We were advised that the Ministry has been able to obtain favourable lease rates. However, the Ministry should compare the options on leases of a significant size. As an alternative, the Ministry could prepare a comparative analysis from time to time that supports its assertion that leasing is the most favourable alternative. We obtained comparative analyses the Ministry performed during 1998 and 1999 in this area and found that the build/own option was usually more financially favourable.

*Comparative analysis ensure informed decisions are made*

Documents supporting the recommended course of action should include a comparative analysis or refer to the results of earlier studies. The Ministry should also include other qualitative factors in the analysis. This will ensure that officials approving the expenditures or contracts can make the most informed decision.

We noted certain funding arrangements where, in substance, the Ministry had financed the purchase of an asset or an improvement and incurred financing costs. However, the Ministry does not record these transactions as the purchase of an asset or an improvement financed by borrowing, as required by Canadian generally accepted accounting principles. It records these transactions as an expense when the payments are made or due.

*Analysis show the lease option was not a better option*

The Ministry advised us that it entered into these arrangements to do essential work or make necessary purchases but it had limited budgeted amounts available for capital funding. For example, the Ministry entered into a lease agreement for a warehouse. The landlord built the facility on land owned by the Ministry that was leased to the landlord for the period of the lease of the warehouse. At the end of the lease the Ministry must purchase the facility for the purchase price as defined in the agreement. The Ministry's analysis for this project indicated that the build/own option was more financially favourable. But because of budget constraints it chose the lease option.

*Transactions improperly recorded*

The Ministry records the annual lease payments for the warehouse facility as rent expense. However, based on the substance of this arrangement, the Ministry should have recorded a leased capital asset and a long-term capital lease obligation at the beginning of the lease term. During the lease term, it should record the annual lease payments as a reduction of the lease obligation and interest expense, to reflect the payment of principal and interest. It should also record amortization of the leased capital asset to reflect the consumption of the asset.

## Deferred maintenance

The Ministry owns and maintains infrastructure assets with a net book value of $5.7 billion. In addition the Ministry funds the infrastructure assets of the following entities:

- school facilities with a net book value of $2.4 billion
- post-secondary educational facilities with a net book value of $2.2 billion
- health facilities with a net book value of $2.5 billion

*Replacement value of infrastructure assets exceeds $42 billion*

The Ministry estimates that the replacement value of the infrastructure it owns is over $22 billion and that of the infrastructure it funds is about $20 billion.

The Ministry faces a continuing challenge in allocating scarce resources to build new infrastructure and maintain existing infrastructure. The Ministry can postpone maintenance and thus increase the amount it can spend on new facilities, but postponed maintenance often has a cost. Postponed maintenance is also called *deferred maintenance*.

*Impact of deferred maintenance*

Infrastructure requires maintenance to retain its normal operating capacity over its expected life. When maintenance is postponed, the money temporarily saved can be spent elsewhere, but the savings are only temporary. The amount deferred will have to be spent eventually and may increase total maintenance costs. For example:

- An organization spends $1 million a year to maintain its various facilities.
- This year, the organization decides to spend only $500,000 and defers maintenance work on some of the facilities; that frees up $500,000 to build new infrastructure.
- But the facilities that were not maintained deteriorate more than if the organization had spent the normal $1 million to maintain them. Next year, its facilities will require more than just $500,000 that was deferred (in addition to its regular $1 million for maintenance). The organization has to spend $550,000 to bring the facilities back to regular condition because the reduced maintenance of the past year caused further deterioration.

In this example, the deferred maintenance is $500,000 (the expenditure needed to maintain normal operating capacity minus the amount actually spent) and the direct cost of the deferred maintenance is $50,000. Indirect costs include increased health and safety risks and increased risk of lawsuits. The organization would use this information to compare the costs of deferred maintenance with the benefits of using the reallocated money to build the new infrastructure. It would do a similar analysis for the new infrastructure—looking at other sources of money and the costs and benefits of those other sources. The organization may decide to fund the new infrastructure some other way or to delay construction.

*The Ministry needs complete information*

The Ministry needs complete information, including the extent and costs of any deferred maintenance, so it can reasonably decide how to allocate its spending. Legislators and the public need assurance that Ministry information systems give it complete information to make reasonable spending choices.

## Audit scope

We reviewed the processes and information systems the Ministry uses to identify and report on deferred maintenance for infrastructure it owns and supports. Our goal was to learn if the Ministry's information systems could generate reliable information on deferred maintenance.

## Extent and cost of deferred maintenance

Recommendation No. 24

**Deferred maintenance**

**We recommend that the Ministries of Infrastructure and Transportation take the following actions to ensure that they base their spending decisions on adequate information:**

- **establish a consistent definition of deferred maintenance**
- **acquire and use systems that accurately measure the extent and cost of deferred maintenance**
- **disclose the extent and cost of deferred maintenance in its annual report**

*The Ministry says it's not ready to report deferred maintenance information*

The Ministry does not agree with disclosing deferred maintenance amounts in its annual report and suggests the issue should be revisited in two or three years. It says that before it can gather reliable information on deferred maintenance, a consistent definition needs to be established for various capital programs across the government.

*The Ministry should not delay reporting on deferred maintenance*

We do not think the need for a definition should delay progress in measuring and reporting the extent and cost of deferred maintenance. The Public Sector Accounting Recommendations of the Canadian Institute of Chartered Accountants encourage governments to report deferred maintenance amounts. The US Federal Accounting Standards Advisory Board has defined deferred maintenance in items 77 and 78 of its publication titled *Accounting for Property, Plant, and Equipment – Statement of Federal Financial Accounting Standards No. 6*. According to this statement:

> *"Deferred maintenance" is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.*

The definition is not complex. The statement describes maintenance as the act of keeping capital assets in acceptable condition. Accordingly, it includes all activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

The Ministry can use this definition, or adapt it for its own situation or develop its own reasonable definition.

*The Ministry needs systems to generate reliable information on deferred maintenance*

The Ministry does not have information systems that generate reliable information on deferred maintenance. It has performance measures for the condition, utilization, and functional adequacy of its infrastructure, which it plans to include in its annual reports. These measures will show how effectively the Ministry has maintained its infrastructure. But the picture is incomplete because there is no reliable information on the extent or cost of deferred maintenance.

*The Ministry is developing new systems*

The Ministry is developing systems, as part of the government's Capital Planning Initiative that will be able to generate information on the extent and cost of deferred maintenance. For example, the Ministry is developing a management information system for transportation infrastructure. This system, called *RoMaRa*, uses prediction and optimization models to recommend the best maintenance program. The system can compare the cost of alternative scenarios and rank them to find the best solution. Therefore, it will have the capability to generate deferred maintenance information. The Ministry is also developing a management information system for its building and land infrastructure. We understand that this system will include similar capabilities as *RoMaRa*.

*Condition surveys conducted*

The Ministry recently surveyed the condition of government-owned buildings, and school and health facilities. It's now surveying facilities of post-secondary educational institutions. The surveys identified maintenance work needed to restore the physical conditions of the facilities. The Ministry estimated the cost of performing this maintenance work and used the information to update the corporate capital overview. The Ministry does not consider this information to be a reliable measure of deferred maintenance because it has not yet established a consistent definition of deferred maintenance.

*Measuring and reporting deferred maintenance information*

Measuring and reporting reliable information on deferred maintenance will allow the Ministry to demonstrate how it rationally allocates its spending between new infrastructure and maintenance of existing infrastructure. This information will also allow legislators and the public to be confident that the Ministry bases its spending choices on adequate information.

## Monitoring the Ministry's implementation of the Capital Planning Initiative strategies

Last year we recommended (2000—No. 25) the Ministry of Infrastructure monitor and evaluate its progress in implementing the strategies of the Capital Planning Initiative.

The Ministry was designated as the lead ministry for the government's Capital Planning Initiative (*CPI*). We reported that the Ministry had formally adopted the strategies of the initiative and started the process of implementing the necessary changes to its systems.

We noted that the full benefits of the initiative would not be achieved until the Ministry had developed and implemented infrastructure management systems, and measured and reported common key performance measures for all infrastructure assets. The strategies of the *CPI* would take several years to fully implement; therefore, monitoring of progress was needed to ensure that the Ministry would meet its objectives.

The Ministry has taken the following steps to implement our recommendation:

*The Ministry took steps to implement our recommendation*

- In February 2001 the Ministry prepared a formal report on the work accomplished to date. This work included the preparation of semi-annual Corporate Capital Overviews, expanded to include a five-year plan for owned and supported infrastructure. The report also sets out the "next steps" in the implementation process.
- The Ministry has made significant progress in collecting baseline performance measurement data for buildings, transportation, water management infrastructure, and other assets.
- Information on the achievement of actual results against targets for strategy implementation, performance measures, and costs is reported to the Deputy Minister and senior management.

- The Ministry is progressing towards implementing a strategy for developing common Infrastructure Management Systems (IMS) for each category of infrastructure it owns. Categories of owned infrastructure were identified and a common IMS reviewed and recommended for each of these categories.
- A plan and schedule for developing detailed specifications for the enterprise architecture have been completed. Current IMS for supported infrastructure have been identified and the primary municipal infrastructure management systems are being identified.

*The Ministry implemented our recommendation*

Based on the evidence obtained during the audit we concluded that the Ministry is monitoring and evaluating its progress in implementing the strategies of the CPI. Accordingly, we consider the Ministry has implemented our recommendation.

---

## Long-term capital asset plans for owned and supported facilities

**Recommendation No. 25**

### Capital plans

**We recommend that the Ministry of Infrastructure continue to implement processes to ensure that capital plans from ministries and client organizations contain information it requires to prepare its long-term strategic plans, as well as the Corporate Capital Overview.**

Last year we recommended (2000—No. 26) the Ministry of Infrastructure obtain further information on the strategic service delivery options and forecasted needs of client ministries to assist in the development of long-term capital asset plans for owned and supported facilities.

*The Ministry's process improved*

The Ministry has improved its processes for obtaining information on strategic delivery options and forecasted needs. Therefore, we have narrowed the recommendation to assist the Ministry to focus on its implementation.

*The Ministry revised its capital manuals for health and school facilities*

The Ministry revised its capital manuals for health and school facilities. The revised capital planning manual for health capital projects requires each health authority to submit a long-term capital plan each year. The manual contains detailed guidance on the required content, including the relationship to service delivery strategies. The revised school capital manual, currently in draft, requires completion of a ten-year and three-year plan. This capital manual also requires these plans to identify the long-range facility needs in support of the school board's education and technology plans. In addition, the manual specifies the form and content of the plan.

*The Ministry obtained long-term capital plans from client organizations*

The Ministry obtained long-term capital plans from regional health authorities and school jurisdictions. Post-secondary educational institutions included their capital plans in the business plans they submitted to the Ministry of Learning. The Ministry of Learning gives the information relating to the institutions' capital needs contained in the business plan to the Ministry.

*The Ministry still needs to improve its process*

The Ministry needs to improve its process in the following areas to ensure it receives the capital plans on a timely basis and is able to monitor them to ensure that it receives complete information.

- The Ministry needs to ensure all ministries submit their long-term capital plans. Currently, the Ministry does not require ministries to submit capital plans for their office accommodation needs. However, it requires them to submit plans if they need facilities for program delivery. Not all ministries have submitted these plans. The Ministry told us that it meets regularly with other ministries to discuss their long-term requirements for facilities and uses this information to update its long-term capital plans. The Ministry also told us it is revising its capital manual to formalize the requirement for ministries to submit long-term capital plans.
- The Ministry needs to ensure the capital plans its receives from client organizations include all information specified in the capital manuals. During our review of the capital plans for school districts, we noted there were inconsistencies in the level and type of information supplied by these organizations. For example, some of the school districts did not provide all the information required by the current capital manuals. The Ministry advised us it obtains the information it requires to supplement the plans.
- Post-secondary educational institutions need to submit more detailed campus development plans to the Ministry of Learning. We understand that institutions are at various stages in the development of these plans. The Ministry of Learning is working with the institutions to improve the information it receives from these institutions.

## Infrastructure management systems

### Systems development decisions

**We recommend that the Ministries of Infrastructure and Transportation formalize the requirement for the preparation of a comprehensive business case analysis to support systems development decisions.**

Last year we recommended (2000—No. 27) the Ministry of Infrastructure review the plans in place for the development of the Ministry's infrastructure management systems and satisfy itself that the most cost-effective systems are being developed and that it has the resources necessary to successfully develop and implement the systems.

*The Ministry's process improved*

We have narrowed our recommendation to assist the Ministry to focus on its implementation. The Ministry is in the process of implementing or enhancing several systems to enable it to comply with the government's capital planning initiative (*CPI*) and ensure it has adequate information to manage its capital assets. The Ministry has improved its processes relating to the development of the infrastructure management systems.

*Strategic plan prepared*

The Ministry has prepared a draft Information and Technology Management Strategic Plan. This plan identifies requirements for data, applications and technology to support the Ministry's core businesses and the *CPI*.

*Framework to manage and share core data established*

The Ministry has prepared a framework, called *Information and Technology Architecture*, to manage core data and share it with other ministries and stakeholders. The framework also describes the major applications required to support the business functions and information needs of the Ministry.

*Planning group established—the group prepares regular reports*

The Ministry has established the Infrastructure Management Systems planning group (*IMSPG*). The purpose of the *IMSPG* is to ensure that the information management systems are developed in a manner that supports the *CPI* and the implementation of a common architecture. The *IMSPG* prepares regular status reports for the Deputy Minister and senior management. These status reports outline major milestones and planned dates for deliverables.

*Strategic plan calls for preparing a business case*

According to the draft Information and Technology Strategic Plan, "a high-level business case will be developed for each potential change that is substantial enough to impact the IM/IT plan". The plan suggests that the business case include the objectives of the proposed change, alternatives, costs of proposed changes and the affects of potential alternatives, risk analysis, financial analysis and recommended course of action.

Our discussion with management and review of the status reports noted above indicate that the systems being developed are on target to meet the 2003 deadline for the implementation of the applications required to support the business processes.

*The Ministry needs to establish its requirements for preparing business case analyses*

We noted the Ministry has not established its requirements for preparing business case analyses required by the strategic plan. We believe the Ministry needs to ensure that significant systems development is supported by comprehensive business case analyses. The Ministry's requirements for business case analyses need to include guidance for preparing detailed qualitative and cost-effectiveness analyses for projects over a certain dollar amount. This will assist the Ministry in monitoring systems development and performing post implementation reviews.

The Ministry's requirements for business case analyses should also include guidance for performing risk analysis, including identification of the likelihood and impact of all risks, consequences of each risk, and strategies to manage the identified risks.

## Performance measures

In 1997-1998, we recommended (1998—No. 38) the former Ministry of Public Works, Supply and Services improve its reporting of performance measures to better demonstrate its cost-effectiveness.

*The Ministry's business has changed*

In 1997-1998, the former Ministry was a central agency and its outputs were primarily inputs to other ministries. We considered it important for the Ministry to demonstrate its cost effectiveness. In May 1999 the Ministry merged with Ministry of Transportation and Utilities to form the Ministry of Infrastructure. The Ministry of Infrastructure took over significant additional responsibilities from other ministries and some of the central agency functions were transferred to other ministries. The business of the Ministry of Infrastructure is not the same as that of the Ministry of Public Works, Supply and Services. Accordingly, our recommendation is not completely relevant to the Ministry of Infrastructure. To the extent our recommendation is relevant, the Ministry has taken steps to implement it.

In its 2001-2004 business plan, the Ministry indicates that as part of its goal to increase the effectiveness and efficiency of central services it will report on the following measures:

- Energy consumption in facilities the Ministry owns and operates.
- Operating cost of office buildings the Ministry owns and operates. The Ministry will compare the average operating cost per square meter of its office buildings to the Alberta industry standard.

*The Ministry implemented our recommendation*

In addition, the Ministry will report on the measures relating to the physical condition, utilization and functional adequacy of the buildings it owns and operates. These measures will show how effectively the Ministry has maintained and used these buildings. Reporting such measures in an integrated results analysis will provide information relating to quality and cost-effectiveness at a high level suitable for public performance reporting. Accordingly, we consider the Ministry has implemented our recommendation.

---

## Ministry financial statements

*Reservation of opinion*

We audited the financial statements of the Ministry of Infrastructure as at and for the year ended March 31, 2001. The auditor's report contained a reservation of opinion.

*The Ministry should estimate the cost and record the liability for site restoration*

In accordance with corporate government accounting policies, the Ministry reports the costs of site restoration in the period in which the restoration work is performed rather than in the periods in which the liabilities arose. In my view, the Ministry should estimate the cost and record the liability for sites that do not meet the required contractual or environmental standards. The estimate of the liability should be refined each year, as the extent of required restoration work becomes clearer. I believe that the effect of this departure from Canadian generally accepted accounting principles is significant; therefore, I reserved my opinion.

# Innovation and Science

## Overview

The mission of the Ministry of Innovation and Science is to enhance the contribution of science, research, and information and communications technology to the sustainable prosperity and quality of life of all Albertans. The Ministry has two core businesses:

- Science, Research and Development ($145 million)
- Government Information Technology ($63 million)

Total operating expenses for the Ministry of Innovation and Science for 2000-2001 were $213.4 million and of this amount, $72.6 million was for grant funding. The increase in grant funding is mainly attributed to the increased spending by ICORE Inc. in its first full year of operations for information and communications technology research. In addition, the Alberta Heritage Foundation for Medical Research, which is an organization accountable to the Minister, had expenses of $52.8 million that are not reflected in the Ministry's expenses.

During the year, the Alberta Heritage Foundation for Science and Engineering Research commenced operations. The Foundation was created with an initial endowment of $500 million. The objectives of the Foundation are to:

- stimulate science and engineering
- promote effective means of using science and engineering resources available in Alberta
- support science and engineering research laboratories and related facilities in Alberta
- promote co-operation in Alberta science and engineering research to minimize duplication and promote concentration of effort
- encourage young Albertans to pursue research careers in science and engineering

## Summary of audit results

The Foundation's legislation states that the Provincial Treasurer shall not pay money out of the Endowment Fund if the payment would impair the real value of the Endowment Fund over the long term. In this section, we recommend that the Foundation request clarification of the meaning of "real value over the long term" to avoid misinterpretation and permit monitoring the Foundation's compliance with its legislation.

For the Ministry to be successful, it needs to fully understand all government-funded science, research and development. This year, we examined the Ministry's system to review government science, research and development at the Alberta Science and Research Authority (ASRA). We recommend ASRA improve the system used to conduct the review.

In 1999-2000, we recommended that the Ministry, with the cooperation of other Ministries, develop systems to assist in the management of government-wide information technology (IT) services and infrastructure. The Ministry drafted a framework that defined the roles and responsibilities of the key stakeholders and a process to develop a government wide information technology management (ITM) plan. The framework is pending the approval of the Deputy Minister's council. Since the framework has not been approved, we are repeating the recommendation that the Ministry develop systems to assist in the management of government-wide information technology (IT) services and infrastructure.

We re-examined controls in IMAGIS, which is the main system that the ministries rely on to process financial transactions and to produce financial statements. Without adequate controls in this system, there is a risk that financial transactions and accounting records may not be correct. Last year, we recommended that the Ministry obtain an appropriate level of assurance that information technology providers are maintaining effective controls to protect the confidentiality and integrity of IMAGIS data. As we note in this Report, there has been some progress, and management is moving towards obtaining the necessary assurance in future years.

In 2000-2001, we commenced a review of the Ministry's systems development methodology. Two systems that had been developed and implemented during the year, ExClaim and Electronic Payment System, were examined. A formal systems development methodology does not exist. Our finding and the resulting recommendation are included in this section.

## Scope of work

In addition to the audit of the Ministry's financial statements, my staff completed the following work:

- a follow-up of the Ministry's progress in developing systems to manage government wide information technology (IT) services and infrastructure
- an examination of the ASRA's system to review government science, research and development
- an examination of the controls over the IMAGIS system
- an examination of the Ministry's systems development methodology, and an evaluation of the process followed in the development and implementation of the ExClaim and the Electronic Payment System
- specified audit procedures on the Ministry's key performance measures reported in its annual report for the year ended March 31, 2001

---

## Information technology

**Recommendation No. 26**

### Management of information technology

**We again recommend that the Ministry of Innovation and Science, with the cooperation of other Ministries, develop systems to assist in the management of government-wide information technology (IT) services and infrastructure.**

*The Ministry is responsible for the effective use of cross government information technology*

In the 1999-2000 annual report (2000—page 193), we made the same recommendation. We noted the Ministry is responsible for coordinating the effective use of the government's computer technology, networks, and information systems and for establishing cross-government policies and standards for information and communications technology.

*The Ministry drafted an accountability framework that is pending the approval of the Deputy Minister's Council.*

Last year the Ministry accepted the recommendation and indicated an accountability framework would be developed with the participation of all Ministries and other important stakeholders. During the year, the Ministry drafted an accountability framework, however, it has not been implemented as it is pending finalization by the Ministry and subsequent approval of the Deputy Ministers' Council. The framework defines the roles, responsibilities, expectations and requirements for stakeholders such as the Chief Information Officer, the Alberta Corporate Service Centre and individual ministries and includes definitions for the deliverables, timing and proposed outcomes for each key stakeholder. The framework also outlines a process to develop a government wide information technology management (ITM) plan and a dispute resolution process. The Ministry also drafted a communications strategy and action plan to assist in the implementation of the framework.

*A framework needs to be implemented*

We believe progress was satisfactory until the initiative was delayed. We encourage the Ministry to implement the framework. It is important that an ITM plan, which sets out government-wide goals and strategies and identifies those responsible for the achievement of the goals, be prepared and approved. A system must also be implemented to monitor progress towards goals and ensure that those responsible for the achievement of the goals are accountable.

## Annual review of government science, research and development

### Systems to review government research

**We recommend the Alberta Science and Research Authority improve its system to review government science, research and development.**

*ASRA advises government respecting science, engineering and technology that affect resources or industry in Alberta*

One of the core businesses of the Ministry of Innovation and Science is Science, Research and Development. The Ministry delivers this core business by providing strategic leadership, managing and funding strategic investments and coordinating government initiatives for science and research in Alberta. This core business is primarily administered by the Alberta Science and Research Authority (ASRA) which advises government and makes strategic investments in the areas of research and development and science and technology.

*An annual review of research is conducted by ASRA*

The government reorganization in May 1999 ultimately resulted in a consolidation within ASRA of much of the funding for research and development. However, a significant amount of research is still funded or conducted by other ministries. In order to monitor the extent of this research, ASRA invites ministries to participate in annual review meetings to discuss significant research and funding activities within their ministries. After these meetings, the Minister of Innovation and Science provides a report containing an overview of significant research activities within government and recommendations to Executive Council.

*Certain organizations do not participate in the review*

The number of organizations participating in the annual research and development review meetings is increasing. Increased participation should help ASRA to better understand the extent of research activities occurring within ministries or in organizations accountable to ministries. Although there was increased participation from university representatives in the review process in 2001, participation from these organizations is limited. Also, with one exception, regional health authorities, the two Provincial health boards, and the Province's colleges and technical institutes do not participate. These organizations also conduct certain research activities.

*ASRA should clarify its scope of responsibilities*

It is not clear what ASRA's responsibilities are in relation to research conducted in universities, colleges, technical institutes and regional health authorities. Because these organizations can receive research funding from a number of sources, there is not a simple relationship between the Province's funding and the research being conducted. It would be useful for ASRA to clarify the scope of its responsibilities for government science, research and development to ensure its review is complete. In order to understand the full extent of research that is occurring in public sector Provincial organizations, ASRA needs to have a complete view of research activities at universities, colleges, technical institutes and regional health authorities.

It would also be useful for ASRA to clarify if research is meant to include the full range of research activities from basic research to commercialization.

*The observations and recommendations are not formerly linked to the government wide policies or priorities*

The process could also be improved if the observations and recommendations arising from the review were clearly linked with the government's policies and overall strategic direction. Although management asserts that the recommendations are consistent with the government business plan, the recommendations would be more compelling if they demonstrated that they were consistent with the government's social and economic policies and priorities. Alternatively, if any recommendations are intended to encourage changes to policies, the report should indicate this.

*ASRA should evaluate the effectiveness of the review process*

ASRA should also evaluate the review process to determine if it is obtaining all information needed to fulfill its responsibilities. The extent of ASRA's understanding of research activities occurring in ministries and accountable organizations, and the extent to which recommendations arising from the review are accepted by the government, are examples of criteria that could be used in the evaluation.

## IMAGIS

*We recommended last year that the Ministry obtain assurance that information technology service providers are maintaining effective controls*

In last year's annual report (2000—page 194), we recommended that the Ministry of Innovation and Science obtain an appropriate level of assurance that information technology service providers are maintaining effective controls to protect the confidentiality and integrity of IMAGIS data. We also recommended that controls in the IMAGIS system be improved.

*Management accepted my recommendation*

We noted again this year that an independent opinion on control procedures at the primary service provider was not obtained. This concern was discussed with management, and we are pleased to note that the Ministry has now accepted our recommendation. We have also been informed that the Ministry is currently arranging for an appropriate report for next year. We believe that our concerns will be satisfactorily resolved once an appropriate opinion on the control procedures at the provider is obtained.

---

## Systems development

Recommendation No. 27

**Systems development**

**We recommend the Ministry of Innovation and Science establish a systems development methodology that can be used as a source of reference when any systems development projects are initiated throughout government, for both outsourced and in-house systems development.**

*A set of criteria for assessing the adequacy of system development methodologies does not exist*

A variety of system development methodologies are presently being used. However, no government-wide standards exist. Consequently there is a risk that the systems being developed, either in-house, or by vendors, might not meet acceptable standards.

*Implementation of the ExClaim system and the Electronic Payment System was put on hold*

This risk materialized when two systems, one designed to process employee expense claims (the ExClaim system) and the other to make electronic payments to suppliers (EPS), had to have their implementation put on hold due to a number of significant concerns. Management decided that systems deficiencies and the absence of controls in the two systems had to be resolved before implementation would be allowed to resume.

*The decision to stop further implementation of the systems was based on management's assessment, the recommendations of a post implementation review, my Office's preliminary assessment and feedback received from users*

We were evaluating these two systems when management made this decision. Management's decision was primarily influenced by:

- management's own assessment of the quality of systems development
- the findings of the post-implementation reviews carried out on the two systems by a consulting firm
- the preliminary findings of my staff
- the reaction of users to the systems

Management has since put together a team that is addressing the concerns identified.

*Some concerns noted were poor project management, lack of user involvement, inadequate testing of new system and insufficient training provided to users*

Some of the concerns relating to the development of the EPS and ExClaim systems included poor project management and inadequate user involvement that resulted in a poorly designed system that did not meet end user requirements. Also, the systems were not user-friendly, resulting in user dissatisfaction and inefficiencies.

*Roles and responsibilities of stakeholders do not appear to have been appropriately defined, and the new system was not adequately tested*

In addition, the roles and responsibilities of stakeholders do not appear to have been appropriately defined. This is evident from the number of security and control issues, as well as functional deficiencies observed. Also, there was inadequate testing of the system, which resulted in a system that did not perform as expected.

*Although the costs of the systems that were developed are not substantial when compared to some of the projects currently being developed, the potential cost could be significant*

The costs of the two systems which were put on hold are not substantial when compared to some of the projects currently being developed—approved budgeted amounts of $234,147 for the ExClaim system and $422,645 for the EPS system. However, the potential cost in terms of lost credibility with, and disruption to, the user community, and the risk of potential losses due to the absence of controls in the new systems, could be significant. Given the significance of new systems development in government, management must give a high priority to developing a sound systems development methodology that all ministries must be required to follow.

*Management has acknowledged that systems development criteria need to be developed*

Management has acknowledged that a systems development methodology needs to be developed, and have commenced a project to introduce consistency and the promotion of best practices in project development and delivery practices. The purpose of the project is to:

> '...*create a standard, practical set of Project Management templates that will be used to deliver IT projects within Innovation and Science.*'

The Ministry intends to make these templates available to all ministries.

*Management should proceed carefully with any further systems development*

Our immediate concern is that systems development projects presently underway are not required to follow a methodology that has been evaluated and approved. We encourage management to proceed carefully with any further systems development until a sound systems development methodology has been introduced.

*All ministries must be required to adhere to an approved systems development methodology*

While the Ministry of Innovation and Science is responsible for developing the majority of systems across government, the lessons learned from the development and implementation of ExClaim and EPS must be noted, and all ministries must be required to adhere to an approved systems development methodology.

---

## Alberta Heritage Foundation for Science and Engineering Research

### Clarification of legislation

**We recommend that the Alberta Heritage Foundation for Science and Engineering Research request clarification of the meaning of "real value of the Endowment Fund over the long term."**

Section 8(2) of the *Alberta Heritage Foundation for Science and Engineering Research Act* states that the "The Provincial Treasurer shall not pay money out of the Endowment Fund if in the opinion of the trustees of the Foundation, on consultation with the Provincial Treasurer, the payment would impair the real value of the Endowment Fund over the long term."

*The terms "real value" and "over the long term" are not clearly defined*

"Real value" is not defined in the Foundation's legislation and could be interpreted in a variety of ways including inflation proofed assets, fair value or cost. Based on our discussions with the investment manager, we understand that uncertainty exists as to what is intended by "real value" and "over the long term."

*Clarification would assist both the trustees and the investment manager in overseeing the Fund*

Clarification of the meaning of the legislation would assist the Foundation in fulfilling its oversight responsibilities as trustees of the Endowment Fund. It would also assist the investment manager in monitoring for compliance with the Foundation's legislation.

## Ministry financial statements

We conducted an audit of the financial statements of the Ministry and Department of Innovation and Science for the year ended March 31, 2001. My auditor's reports for the Ministry and the Department contained reservations of opinion. Capital assets costing less than $15,000 have been expensed in the year acquired. Also, expenses and accounts payable were overstated by recording a liability for services to be received in future periods.

In addition, I reported in the auditor's report of the Ministry and Department financial statements that the Department of Innovation and Science received $1 million from the Department of Learning to fund a research grant. The transfer was based on an agreement between the Ministers of the two departments. However, it is unclear why this transfer occurred as Innovation and Science had sufficient funds in its voted appropriation to fund this grant and did not require the additional funds from Learning. In my view, it is inappropriate for the Department of Learning to transfer funds to Innovation and Science to fund an Innovation and Science program without statutory authority.

## Other entities

Financial audits of the following were also completed for the year ended March 31, 2001:

Alberta Science and Research Authority
Alberta Research Council Inc.
ICORE Inc.
Alberta Heritage Foundation for Medical Research
Alberta Foundation for Health Research
Alberta Heritage Foundation for Science and Engineering Research

# International and Intergovernmental Relations

## Overview

The Ministry of International and Intergovernmental Relations is responsible for the development of cross-ministry policies and strategies to guide agreements and relations with other Canadian governments, international governments and organizations, and the Aboriginal community.

*The Ministry's total expenses were $34 million*

In 2000-2001, the Ministry expended $34 million. Of this amount, $20 million related to obligations under, and administration of, the *Metis Settlements Accord Implementation Act*. The cost of other Aboriginal Relations initiatives was $6.7 million. International Relations, Trade Policy, and Canadian Intergovernmental Relations programs accounted for spending of $4.3 million, with the balance of funding applied to Ministry administration. The Ministry has no external revenue.

*The Metis Settlement Transition Commission and the Metis Settlement Appeal Tribunal report to the Minister*

The Metis Settlement Transition Commission and the Metis Settlement Appeal Tribunal report to the Minister but are not part of the Ministry. The Metis Settlement Transition Commission was established by legislation to assist the Metis settlements in Alberta towards achieving self-government. The Commission works with Metis settlements to improve their governance and operating practices. It is expected that the Commission will be wound up at March 31, 2002.

*The Ministry's responsibilities for Aboriginal Relations have been transferred to the Ministry of Aboriginal Affairs and Northern Development*

In the recent government reorganization, the Ministry's responsibilities for Aboriginal Relations were transferred to the newly created Ministry of Aboriginal Affairs and Northern Development. As of that date, the Metis Settlement Transition Commission and Appeal Tribunal are accountable to the Minister of Aboriginal Affairs and Northern Development.

## Scope of work

In addition to the annual financial audit, my staff applied specified auditing procedures to performance measures included in the Ministry's 2000-2001 annual report.

## Metis Settlements

### Metis Settlements performance measures

**We recommend that the Ministry of Aboriginal Affairs and Northern Development develop performance measures to report success in developing "accountable, self-regulating, and self-reliant Metis Settlement governments."**

*The Ministry is working with others to develop accountable, self-regulating, and self-reliant Metis Settlements*

The Ministry has a goal to "support aboriginal people and governments in achieving self-reliance and enhanced well-being." This goal is supported by strategies for the Metis Settlements program that are directed at developing "accountable, self-regulating, and self-reliant Metis Settlement governments."

*During the year, approximately $20 million was spent by the Ministry on Metis Settlements*

Last year, approximately $10 million of the total expenditures of the Ministry of International and Intergovernmental Relations was spent on Metis Settlement governance. These funds were provided to the Metis Settlements Transition Commission, the Metis Settlements Appeal Tribunal and Metis settlements. In addition, $10 million was paid to the Metis Settlements General Council as required by section 6 of the *Metis Settlements Accord Implementation Act*.

*There are no performance measures that report on the results of the Metis Settlements program*

The draft Ministry Annual Report for 2000-2001 does not include any performance measures that report on the results of the Metis Settlements program. The report only describes the strategies and actions undertaken during the year. The 2000-2004 business plan of the new Ministry of Aboriginal Affairs and Northern Development includes general performance measures for the activities of the Ministry, but no specific measures for the Metis Settlements program.

*The Minister has ultimate responsibility for the Act and the success of the program*

Since the Minister is charged with the administration of the Act and has ultimate responsibility for the program's success, the Ministry's Annual Report should provide performance information on the effectiveness of the program. This information would be based on reporting provided by the Metis Settlements Transition Commission, the Metis Settlements General Council, and the Metis Settlements.

Developing and reporting on performance measures for the Metis Settlements program will help the Ministry monitor progress and demonstrate its success.

# Metis Settlement Transition Commission

## Financial statements

I conducted an audit of the financial statements of the Metis Settlement Transition Commission for the year ended March 31, 2001.

## Scope of work

In addition to the annual financial audit, my staff followed up our prior year recommendations to:

- improve the Commission's business planning process
- develop and report on performance measures that demonstrate progress towards the Commission's goal of "good self-government practices"

## Business planning process

*Business planning recommendations are implemented*

In the 1997-1998 Annual Report, we recommended (1998—No. 33) that the Metis Settlement Transition Commission further develop the business planning process to help ensure significant expectations are clearly identified and that achievement is measured. In our 1998-1999 Annual Report, (1999—page 222), we acknowledged progress and noted that further steps were needed.

Business plans have now been produced by Metis Settlements for a number of years, and the Commission has a process in place to evaluate them. We conclude that the recommendation has been implemented.

## Performance measurement and reporting

In last year's Annual Report, we recommended (2000—page 198) that the Commission measures its progress towards its core goal of "Good Self-government Practices" and include this information in their annual report.

*The Commission's latest annual report includes information on "Good Self-government Practices" of Settlements*

The Commission has increased its disclosure in regards to "Good Self-government Practices" in its annual report. The report includes information on the progress that has been made in achieving this goal as well as what must be done in order for the settlements to be more successful. The report also describes the methods and achievements of the Commission's financial monitoring practices.

*Recommendation has been implemented*

The Commission provided appropriate information on progress towards "Good Self-government practices" in their annual report. We conclude that the recommendation has been implemented.

## Ministry financial statements

*My auditor's report on the Ministry financial statements contained a reservation of opinion*

I audited the financial statements of the Ministry of International and Intergovernmental Relations for the year ended March 31, 2001. My auditor's report contained a reservation of opinion because capital assets costing less than $15,000 are expensed and are not recognized as assets in the Ministry financial statements.

# Justice and Attorney General

## Overview

The mission of the Ministry of Justice is to ensure equality and fairness in the administration of justice.

The Ministry comprises the Department and the Victims of Crime Fund. The total operating expense for the Ministry of Justice was $450 million in 2000-2001and is comprised mainly of the following:

| | 2000-2001 (in millions of dollars) |
|---|---|
| Court services | $105 |
| Legal services | 53 |
| Support for legal aid | 23 |
| Public Trustee | 7 |
| Medical Examiner | 4 |
| Public Security | 102 |
| Correctional services | 112 |

Total revenue for the Ministry was $134 million in 2000-2001. The Ministry's main revenue sources are:

| | 2000-2001 (in millions of dollars) |
|---|---|
| Fees | $33 |
| Fines and related late payment penalties | 30 |
| Transfers from the federal government primarily for cost-sharing agreements | 29 |

Fees consist primarily of court fees ($14 million) and fees to administer Motor Vehicles Accident Claims ($14 million).

Transfers of $18 million from the Government of Canada relate to the Young Offenders Program.

A significant aspect of Justice's activities is the management of funds held on behalf of others. The fund balances in these accounts total approximately $451 million. Of these, trust funds administered by the Office of the Public Trustee total $406 million.

During the year, the government announced new ministry structures. As a result, some responsibilities of the Ministry were transferred to the Ministry of the Solicitor General at the end of the fiscal year ended March 31, 2001.

## Summary of audit results

Because the Department relies on significant infrastructure to deliver its services, it needs an effective capital asset management system. In this section, we make a recommendation that the Ministry improve their capital asset management process by completing long-term capital asset plans, and linking this information to the business planning process.

The Ministry provides legal services to other government departments, either through in-house staff or by contracting external legal counsel. There is a risk that, without appropriate accountability for these services, the Ministry may not be providing cost-effective legal services. In this section, we comment on the Ministry's progress in developing performance measures that report the cost-effectiveness of legal service delivery. We also repeat a recommendation that the Ministry improve its measurement of the results and costs of its fines collection activities.

## Scope of work

In addition to the annual financial audits, the following work was completed:

- an examination of the Department's system for capital asset management
- a follow-up on the Department's accountability system for legal services provided to other departments
- a follow-up on the Department's progress in measuring the results and costs of fines collection activities
- performance of specified audit procedures on the Ministry's performance measures

# Capital asset management

Recommendation No. 28

**Capital asset management**

**We recommend that the Department of Justice improve its capital asset management process by completing long-term capital asset plans, and linking this information to the business planning process.**

*Justice needs a long-term capital asset plan*

Justice is responsible for the effective delivery of its core businesses of prosecutions, courts, legal services to government and legal services to vulnerable Albertans. Justice needs an appropriate infrastructure to successfully deliver its core businesses. To achieve an appropriate infrastructure, Justice needs a long-term capital asset plan. This plan should be linked to and support the objectives and strategies set out in Justice's business plan. The net book value of courts and correctional facilities is approximately $254 million.

*Focus is on projects required to meet immediate needs*

Currently, the capital asset management system does not include a process for completing a long-term capital asset plan. At present, the capital project listings are completed with projects that are primarily required to meet Justice's immediate needs. Infrastructure makes decisions as to which items should be approved based on priority and funding available, and based on ongoing consultation with Justice.

Justice, with input from Infrastructure, should complete a long-term capital asset plan. The plan should identify the funding required to achieve the goals set out in the plan. The completion of a long-term capital asset plan would assist management of Justice and Infrastructure in forecasting capital needs to effectively deliver services. The need for long-term departmental capital asset plans was identified within the cross-government Capital Planning Initiative. The capital asset plan should also be provided annually to the Department of Infrastructure. The capital asset plan should include a business case to support its needs assessment and include the following:

- be supported by appropriate studies of the status of the current and future infrastructure needs
- include historical and projected population statistics, crime rate statistics, incarceration rate statistics, and departmental staffing needs
- include prioritized capital infrastructure projects including project description, project budget, required date of completion, and analysis to support the need

- disclose all applicable options should the desired project(s) be rejected or delayed
- include the implications on the goals and objectives of the Department if funding is not approved for each project

*Capital asset plan should link to business plan*

Additionally, the current capital asset management system does not appear to be integrated with the business planning process. There is no evidence that the objectives and strategies in the business plan are supported by a capital asset plan.

## Accountability for legal services

*Justice is responsible for retaining outside legal counsel*

Justice is responsible to provide legal services to the government of Alberta. This responsibility is laid out in the *Government Organization Act*, schedule 9. In 1999, the Ministry developed a protocol for retaining outside legal counsel. The protocol outlines that retention of any outside counsel for government departments is the sole responsibility of Justice. As well, it specifies that government departments are responsible for paying outside counsel and that Justice is responsible for monitoring all legal services.

*Justice has set measurable performance expectations to monitor and evaluate performance of outside legal counsel*

Last year we recommended that the accountability for the management of contracted legal services be improved. To improve accountability, Justice has established measurable performance expectations for contracted legal service providers and plans to conduct periodic assessments during engagements and conduct an appraisal and an exit interview at the completion of each case. We will monitor implementation of the new process over the coming year.

*The Department should develop measures and report on the cost and effectiveness of legal service delivery*

We believe accountability for the management of legal services has been improved, but we encourage the Department to continue with the process of developing performance measures that measure the cost-effectiveness of legal service delivery. We have held discussions with the Department as to the appropriateness of performance measures, and the Department has begun to explore the opportunity of comparing internal legal costs to external legal costs, including a comparison of hourly rates. We are satisfied with the Department's progress to date, and we will continue to work with the Department to develop performance measures that will measure the cost-effectiveness of legal service delivery.

# Fines and costs

Recommendation No. 29

**Fines and costs**

**We again recommend the Department of Justice determine the results and costs of its fines collection activities.**

In our 1999-2000 annual report (2000—page 203), we commented on the progress the Department has made towards implementing our 1994-1995 recommendation to determine the results and costs of its fines collection activities. At that point, the Department had not taken steps to implement the recommendation.

*Justice needs to measure and report on the success of its collection activities*

Each year the Department collects about $100 million from approximately one million fines imposed in Alberta. The majority of the fines collected belongs to municipalities in Alberta or to the federal government, and the balance, which in 2001 amounted to about $20 million in fine revenue and about $9 million in late payment penalties, belongs to the Province. In order to demonstrate the Department's performance, the Department needs to understand the success of its collection activities. The Department should determine the number of fines levied, collected, outstanding and written off. As well, the Department should determine the costs of collecting the fines in order to determine whether its collection activities are cost-effective or whether alternative strategies might be needed.

*The Department should report on the costs of fine collection*

The Department has developed two planning documents, which outline an action plan and timelines to develop the required reports. However, the Department is currently behind in meeting the planned completion dates specified in the action plan. The Department has also indicated that it will commence gathering and compiling costing information and produce a costing report sometime during the next fiscal year.

The Department has yet to address the recommendation, but is taking steps to implement it. Considering that it has now been six years since we first made this recommendation, progress has been unreasonably slow.

## Ministry financial statements

We conducted audits of the financial statements of the Ministry and Department of Justice as at and for the year ended March 31, 2001. My auditor's reports contain reservations of opinion. Capital assets costing less than $15,000 have been expensed in the year acquired. The Department did not record a liability for personal injury claims under the *Motor Vehicle Accident Claims Act* that are likely to result in settlement. Also, the Ministry did not record a liability for known recurring payments handled by the Crimes Compensation Board.

## Other entities

A financial audit of the Victims of Crime Fund was also completed for the year ended March 31, 2001. Our auditor's report contained a reservation of opinion because a liability was not recorded for recurring payments arising from compensation awarded by the Crimes Compensation Board.

# Learning

## Overview

*What the Ministry does*

The core businesses of this Ministry comprise basic learning (kindergarten to grade 12), adult learning and apprenticeship and industry training. The Ministry consists of the Department of Learning and the Alberta School Foundation Fund.

During 2000-2001, the Ministry spent approximately $4.5 billion. Of the total expended, approximately $2.9 billion went to school jurisdictions, and $949 million to post-secondary institutions. Approximately $118 million was spent on support for post-secondary students. Other than approximately $1.2 billion of school property taxes and transfers from the Government of Canada of approximately $177 million, there were no significant external sources of revenue.

## Summary of audit results

*Ministry financial statements*

An adverse audit opinion was issued on the Ministry financial statements because school jurisdictions and public post-secondary institutions were not consolidated.

*Systems to determine school jurisdiction compliance with CTS requirements need to be improved*

The Department provides approximately $80 million annually to fund Career and Technology Studies (CTS) programs delivered by public high schools in the Province. We examined whether the Department has appropriate systems to determine if school jurisdictions are complying with CTS requirements and to take corrective action where required. We concluded that the Department's systems should be improved.

*Data collection from public post-secondary institutions (PSIs) needs to be improved*

The Department uses data from the public post-secondary institutions (PSIs) to determine whether new programs proposed by the PSIs should be approved, to support funding decisions and to assess the performance of the post-secondary sector. We examined the systems used to collect this data and concluded that the data needs to be collected on a more timely basis and controls improved to ensure that the data collected is reliable.

*The capital assets policy statement provided to PSIs needs to be updated*

With the substantial investment that has been made in capital assets, it is essential that PSIs identify the funding sources required to maintain and replace capital assets when required. This year we examined whether sufficient guidance is provided by the

Department of Learning about funding to be provided by the Province. We concluded that the Department of Learning needs to update the previous guidance provided.

*Systems to approve and manage construction contracts need to be improved at the Southern Alberta Institute of Technology*

As a result of projected increases in sector enrolment, especially in certain program areas, providing sufficient access to post-secondary education has become a more significant challenge for the Ministry. To meet this challenge construction activity has increased within the sector over the last several years. This year we reviewed the systems to approve and manage construction contracts at the Southern Alberta Institute of Technology. We concluded that the systems could be improved by:

- including a risk analysis in the business case for major projects
- strengthening project management controls
- requiring annual disclosure of conflict of interest for staff involved in procurement and project management functions

As the statutory auditor of the public post-secondary institutions each year we perform financial statement audits at these institutions. We have included in this report some of the recommendations made at the conclusion of the current year audits. These recommendations were designed to:

- ensure control weaknesses are identified and corrected at the University of Alberta and University of Calgary
- improve financial processes at Grant MacEwan College
- improve contracting procedures at the Artic Institute of North America and Mount Royal College

## Scope of work

In addition to the annual audit for the year ended March 31, 2001 of the financial statements of the Ministry and Department of Learning, the following work was completed:

*Basic Education*

- an examination of the Department's systems to assess student performance, record student marks and award funding for the Career and Technology Studies program
- a follow-up of our recommendation on Departmental systems to ensure the planning for the delivery of education is linked to the long-term capital planning for school facilities conducted by the Department of Infrastructure
- a follow-up of our recommendation that the Department improve its monitoring of school jurisdictions as required under the *School Act*

- a follow-up on our recommendation to improve the accountability of charter schools
- a follow-up on our recommendation to improve financial reporting and the analysis of academic performance for special needs education
- a review of the results from school jurisdiction audits for the fiscal year ended August 31, 2000

*Post-secondary Education*

- an examination of Departmental data collection systems used to support the approval of new programs, and to assess the performance of the post-secondary education sector
- a follow-up of our recommendation on systems used by the Department to approve deficits of the public post-secondary institutions
- a follow-up our previous year recommendation concerning deferred maintenance
- specified audit procedures on the performance measures presented in the Ministry's 2000-2001 Annual Report

The results of these examinations are reported either under the Basic Education section or, where the examination pertains to departmental systems for public post-secondary institutions, in the Post-Secondary Education section of this Report.

## Reporting entity

*An adverse audit opinion was issued on the Ministry financial statements because of the lack of consolidation of school jurisdictions and public post-secondary institutions*

As with previous years, an adverse audit opinion was issued on the financial statements of the Ministry of Learning for the year ended March 31, 2001. The Ministry financial statements contain only the transactions of the Department and Alberta School Foundation Fund. In my opinion, Canadian generally accepted accounting principles applicable to the Ministry require school jurisdictions and the public post-secondary institutions to be consolidated in the Ministry financial statements. Accordingly, I am of the opinion that the Ministry financial statements are not fairly presented.

The primary objective of Ministry financial statements is to provide an accounting of the full nature and extent of the financial affairs and public resources for which the Minister is responsible. While the Department of Learning, the Alberta School Foundation Fund, the school jurisdictions and the public post-secondary institutions are separate legal entities, they constitute the publicly funded system for learning. Accordingly, consolidated financial statements provide the most appropriate basis for the Minister to fulfill his accountability responsibilities for informing stakeholders about the operations and fiscal results of the system as a whole.

Had these entities been consolidated, the Ministry results would have been as follows:

| Financial Statement component | Amounts reported on the Ministry financial statements | Estimated adjustment required if the entities were consolidated | Revised amounts |
|---|---|---|---|
| | | (in billions of dollars) | |
| Total assets | $ 0.145 | $ 7.3 | $ 7.445 |
| Expenses | 4.490 | 1.7 | 6.190 |

I cannot reasonably estimate the amount of the revenue and therefore the amount of net liabilities that have been omitted because of a lack of information. However, in my view the revenue omitted is as significant as the expenses that I have been able to estimate. I am confident that, if the Ministry employed an appropriate consolidation process, these figures could be efficiently determined.

## Other matters in auditor's report

*The Department made a $1 million transfer to the Department of Innovation and Science without seeking consent of the Legislative Assembly*

I indicated in the fourth paragraph of my auditor's report that during the year, the Department of Learning (the Department) transferred to the Department of Innovation and Science (I&S) $1 million to be used to fund a research grant. While the Minister of Learning has authority to make grants, in my view, it is inappropriate for the Department to transfer funds to I&S to fund an I&S program without statutory authority.

In addition to the reporting entity matter discussed above, there were other reasons for the reservation of opinion. The allowance for assessment adjustments and appeals related to school property tax assessments was overstated by $27 million. Also, Schedule 10 – Related Party Transactions did not disclose the funding provided to the public post-secondary institutions or the school jurisdictions.

# Basic Education

## Career and Technology Studies (CTS) Program

Recommendation No. 30

### Career and Technology Studies

**We recommend that the Department of Learning improve its systems to ensure that school jurisdictions are complying with the requirements of the Career and Technology Studies (CTS) program.**

The Department pays approximately $80 million annually to fund Career and Technology Studies (CTS) programs delivered by public high schools in the Province. CTS courses range from automotives to agriculture to information and communications technology. While most high school courses are for 3 or 5 credits, many of the CTS courses are for one-credit to allow schools to deliver courses in clusters and to deliver CTS and non-CTS courses jointly.

*The Department provides school jurisdictions with the requirements for CTS course delivery*

The Department provides school jurisdictions with the requirements for CTS course delivery through various documents such as the Program of Studies, the Guide to Education and the Funding Manual. School jurisdictions are required to:

- Assess student performance based on specific learner outcomes
- Provide the required access to instruction
- Submit course marks and receive funding for a given course within the funding guidelines
- Report student mark and course information accurately

*Some school jurisdictions are not complying with CTS requirements*

The Department needs systems to ensure that school jurisdictions follow CTS requirements. Systems should identify non-compliance and allow corrective action. We identified cases where student performance was not being assessed, instruction may not have been provided, duplicate payments were made on the basis of marks submitted twice by school jurisdictions, and errors in course descriptions were reported on high school transcripts.

## Learner outcomes

*We identified examples of schools where learner outcomes have not been assessed*

In the Program of Studies for senior high school students, general and specific learner outcomes are described for each one-credit CTS course. A student must successfully demonstrate competency in all the required outcomes. We identified schools where specific outcomes may not have been assessed.

*Student performance may not have been assessed for each course*

One school had offered three one-credit courses to 1,250 of its students; each student received an identical mark for each of the three courses. Uniformity of the marks would suggest that students may not have been individually assessed for each of the courses as required by the Program of Studies. Department staff were not aware of these anomalies and were unable to demonstrate that individual assessments were done. The school received $409,000 for these courses, which amounted to over 30% of its CTS funding for that school year.

*Student performance was not assessed by teachers*

In another case, a school had delivered three leadership courses to 91% of the student population. Assessment for all three courses was based on student self-assessed participation in school activities such as pumpkin carving and door decorating contests. In the Program of Studies, the leadership course outcomes state that the student will define concepts, terms and practices relating to leadership, compare theories and styles of leadership, and explain the similarities and difference between leadership practices and management styles. There was no teacher assessment of outcomes as required in the Program of Studies. The school received approximately $130,000 for these courses in 1999-2000.

## Access to instruction

*Required access to instruction may not have been provided*

The Guide to Education states that all courses are required to have 25 hours of instruction time for every credit. Access to instruction is defined as "…designated times when teachers are available to the students" to deliver or supervise instruction. Instructional time includes "time scheduled for purposes of instruction, examinations and other student activities where student-teacher interaction and supervision are maintained." However, it does not include activities such as lunch breaks, breaks between classes, supervised study halls, and time taken to register students. We identified two schools that offered a one-credit course and received funding for more than 90% of its student population in one semester. Neither school appeared to provide the required access to instruction of the courses. According to departmental records:

*Required access was not provided for a block of CTS courses*

- One of the schools offered three levels of CTS leadership courses to the entire student population. The school was required to provide 62.5 hours of access to instruction to each student (the Guide to Education permits schools to deliver a block of three, one-credit CTS courses for 62.5 hours if the school ensures the students meet all of the outcomes of each one-credit course). Department staff indicated that the school had planned to deliver instruction for the first level course every other day in a period designated for student registration. Additional instruction was to be provided through a one-day staff/student symposium and through self-directed study. Based on this, only 29 hours of instruction were available in the semester (assuming a 90 day semester).

*Instruction was provided in twelve-minute blocks*

- Another school provided information to the Department stating that they delivered a one-credit course to 91% of the student population through twelve minute instructional blocks four days a week. The Department should consider whether quality education is feasible with such limited instruction time.

*Instruction for CTS courses delivered with non- CTS courses was not always provided*

The Department also allows schools to deliver CTS courses with non-CTS courses within specific guidelines. When a one-credit CTS course is added to the five-credit course, the Guide to Education requires that the student have access to an additional 25 hours of instruction. We reviewed a copy of a report prepared by a school jurisdiction indicating that jurisdiction staff believe the time in regular core class is sufficient to meet the needed instruction of CTS modules. If additional instruction time is not being provided, credits for two courses are being awarded based on instruction time for one course. The report also indicated that teachers are available for students requiring instruction outside of normal school hours. However, instruction outside of normal school hours does not meet the definition of access to instruction in the Department's guidelines. The Department cannot identify when a non-CTS course has had a CTS course tagged to it and accordingly it cannot determine whether the guidelines are being followed.

## Duplicate payments

*Students are permitted to repeat courses to improve marks*

The Department's funding policy permits a student to repeat a course as long as instruction is provided in accordance with the same requirements as the first time. If the student takes the course in a different semester, the school will receive funding for offering the course again to the student, regardless of whether the student improves the mark. However, if the student achieved 100% the first time, funding is only provided once, because the student cannot improve the mark.

*Funding was provided for duplicate student marks submitted in error*

Based on our testing of CTS credit enrolment units for the school years 1998/99 and 1999/00, we identified 173 cases where a student received 100% in two attempts for the same course. In all of those cases the school received funding for both attempts, contrary to the Department's policy. When the Department questioned the school jurisdictions, most of the responses indicated that the mark was duplicated. The Department subsequently expanded its review and identified over 4,000 courses for which school jurisdictions may have submitted duplicate marks. These duplications occurred in 57 of 64 school jurisdictions. To date, the Department has identified overpayments of $108,146. We are advised that the Department intends to recover these overpayments.

### Transcript errors

*Errors in course descriptions occurred on high school transcripts*

In our review of student mark data submitted to the Department, we identified a school for which the jurisdiction submitted student data with the incorrect course codes. Adjustments are being made to student records for the Grade 10 and 11 students; however, transcripts for the Grade 12 students will remain incorrect. Although we understand that school jurisdictions have the responsibility to report the information accurately, transcripts are the responsibility of the Department. The Department should verify, through edit checks or exception reports, that student mark data submitted by the school jurisdictions is accurate.

---

## Long-term capital planning

Recommendation No. 31

**Long-term capital planning**

**We again recommend that the Department of Learning improve its systems to ensure that long-term capital planning for school facilities is consistent with plans for the delivery of education.**

*Learning and Infrastructure business plans reflect consistent strategies to plan school facilities*

In our 1999-2000 Annual Report, we recommended (2000—No. 31) that the Ministry of Learning coordinate their planning more effectively with the Ministry of Infrastructure so that school facilities planning reflects the strategic direction of the Ministry of Learning. We are pleased to report that the respective 2001-2004 Ministry business plans reflect consistent strategies relating to planning for school facilities. For example, Infrastructure's business plan includes a strategy to plan, evaluate and develop Provincial school capital plans, programs, processes, policies and legislation, as well as manage school capital, in partnership with Alberta Learning. Learning's business plan includes a strategy to partner with Alberta Infrastructure to ensure there is the physical capacity to meet the demands of the learning system including expansion, infrastructure renewal and ongoing maintenance. Additionally, management has indicated that a Joint Policy Coordination Committee will help coordinate the strategic planning activities and help ensure that the best quality educational facilities are effectively planned and efficiently built.

*Learning and Infrastructure need a process to make sure school jurisdiction education plans and capital plans are aligned*

However, the Department still does not have a systematic process to identify and reconcile any inconsistencies between trends, priorities and needs as identified in school jurisdiction three-year education plans and the capital needs and proposals included in three-year jurisdiction capital plans. Currently, Learning receives and reviews school jurisdiction education plans to ensure that these plans meet guidelines as set out in the "Guide For School Board Planning and Results Reporting." Infrastructure receives and reviews school jurisdiction capital plans. The school capital manual requires school boards to complete ten year and three-year capital plans and encourages consistency with the long-range facility needs disclosed in school board education plans. However, there is no process to ensure the two sets of plans that are received are consistent.

*There are discrepancies between school jurisdiction education and capital plans*

We reviewed the education plan and related capital plan (or equivalent documentation) for ten jurisdictions and noted a number of discrepancies. For example, for six of the ten school jurisdictions, there was not a complete match between modernization, new construction and replacement projects identified in the education plan and those included in the capital plan. In addition, for six of the school jurisdictions, projected enrolment information was presented in one plan but not the other. We also observed that one school jurisdiction in our sample did not submit a capital plan, even though the education plan identified capital needs.

# Departmental monitoring and evaluation

### Risk management

**We recommend that the Department of Learning establish a risk management process to improve the effectiveness of its controls and monitoring activities.**

In our 1998-1999 annual report (1999—No. 22) and 1999-2000 annual report (2000—page 212), we stated that the Department of Learning does not conduct a comprehensive review of all significant risks in order to carry out the monitoring of school jurisdictions. We also stated that once the risks were identified the Department would be able to prioritize the issues and develop a comprehensive long-term plan for its monitoring activities. In 1999-2000 we also noted that the Department established a Systems Improvement and Reporting (SIR) division that is responsible for evaluating the performance of the learning system, independent of the program delivery areas of the Department.

*An assessment of risk helps to identify actions to mitigate risk*

An assessment of risk would enable the Department to take action to mitigate that risk. For example, a risk assessment would have helped to identify the risks associated with the delivery of CTS courses in Alberta high schools and take action, such as monitoring of marks submitted by school jurisdictions, to mitigate the risk of over funding and the risk of not providing courses in accordance with the Program of Studies and Guide to Education.

*An assessment of risk also helps to allocate resources to areas of greatest risk*

A comprehensive assessment of risk would also help the Department to allocate resources to areas of greatest risk. For example, if the Department were to prioritize the risk of over funding of the various grants it provides, it could achieve a better balance based on risk, in the level of assurance it receives on accountability reports from grant recipients, as well as in the extent of monitoring the Department conducts. Currently the Department receives audit reports from Early Childhood Services (ECS) operators for grants totalling less than $100,000, whereas from recipients of funding from the Student Health Initiative Program, totalling over $1 million, the Department has been receiving an unaudited grant accountability financial statement signed by the school jurisdiction treasurer. We also noted in our audit of the Ministry financial statements that the Department does not focus its enrolment verification on identified risk areas, such as ineligible non-resident students.

*The Department does not have a process to identify and manage corporate-wide risks*

In 2000-01 the Department developed a long-term strategic plan background document that identified nine key areas related to learning in Alberta. Although these areas may not be specific risk categories, the list may be a basis for the Department to start to identify and categorize risks. Currently the Department does not have a process in place to identify corporate-wide risk and, as a result, does not have a comprehensive risk management plan to address these risks. Although various monitoring activities and controls exist throughout the Department, there is no evidence that they are based on an analysis of risk. As a result, during the year we observed certain control weaknesses, as noted in the data errors in the CTS program, and lapses in monitoring activities. For example, we identified that Credit Enrolment Unit (CEU) monitoring, had not been done for 1999-2000; the Department recommenced the CEU monitoring after we brought the matter to their attention.

## Charter School accountability

Recommendation No. 32

**Charter School accountability**

**We again recommend that the Department of Learning continue to assist charter schools in developing measurable outcomes so that there is a base from which to measure and evaluate charter school results against their mandates.**

*The Department needs a basis to evaluate charter school performance*

In our 1996-1997 Annual Report (1997—page 86) and subsequent years, we observed that the Department of Learning does not ensure that each charter school's charter contain measurable outcomes so that expected improvement in results occurring from innovative learning practices can be demonstrated. These expected outcomes would serve as the results against which the renewal of the charter could be evaluated.

*The Department has not yet addressed our concern*

In 2000-2001, the Department revised the Guide for Charter School Planning and Results Reporting to require that charter schools include measurable outcomes in their education plans and outcome results in their annual reports. The Department has indicated that some charter schools have not yet been successful in identifying measurable outcomes in their plans. The Department will not be able to assess charter schools' success in reporting on measurable outcomes until charter school results reports are submitted in November 2002. In our view, progress has been unsatisfactory since the recommendation has yet to be fully implemented four years after it was made. The consequence is that charter schools are not providing the appropriate accountability for public moneys received and expended by them.

*The Department should assist charter schools to develop measures as soon as possible*

The Department should continue to work with charter schools in the development of measurable outcomes so that the Department can fully evaluate student performance that results from innovative learning practices in accordance with the charter mandates as soon as possible.

## Special needs education

In our 1997-1998 Annual Report (1998—page 84) and subsequent annual reports, we reported that the Department of Learning was not able to accurately determine the costs of delivering special needs education.

*The Department has taken steps to improve the accuracy of cost information*

The Department needs reliable financial and outcome-based information, gathered on a consistent basis, to assess the costs and performance associated with the delivery of special needs programming. We are pleased that the Department has taken steps to improve the accuracy of cost information related to the delivery of education to mild/moderate special needs students as well as costs for delivering services to severe special needs students.

*We are satisfied with the Department's progress*

As a result of these efforts, the Department noted a higher degree of accuracy in the 1999-2000 audited school jurisdiction financial statements. For the fiscal year 2000-2001, the Department has provided further guidance to the school jurisdictions. We have reviewed this guidance and believe it should increase the Department's confidence that the data is reliable and reported on a consistent basis by school jurisdictions. We could not assess the effects of the guidance because the school jurisdiction's audited financial statements for August 31, 2001 have not yet been prepared and submitted to the Department. We believe that progress is satisfactory and we will continue to monitor the guidance provided by the Department and the quality of the data produced by the school jurisdictions to ensure that our recommendation has been implemented.

## Financial reporting in the basic education sector

In our 1999-2000 Annual Report (2000—page 215) we recommended that the Department of Learning critically evaluate school jurisdictions' financial statements to determine consistency in reporting practices and to identify reporting deficiencies and business risks.

*The Department has improved its review of school jurisdiction financial statements*

We believe that the Department has made satisfactory progress in implementing the recommendation. Some of the initiatives undertaken by the Department include the development of a documented review process of each school jurisdiction's financial statements. The Department has a Financial Measures Database information system that is used to that extract, summarize, and analyse various components of the financial statements for all the school jurisdictions. Using this information the Department prepares trend analysis that includes current ratio analysis, net assets per student, accumulated operating surplus per student, net working capital per student, capital reserves per student and total full time enrolment in kindergarten to grade 12.

## Results of school jurisdiction audits

There are 72 school jurisdictions, including charter schools, under the Ministry of Learning. The Auditor General is the appointed auditor of Northland School Division in accordance with the *Northland School Division Act*. In all other cases, school jurisdictions are audited by private sector professional service firms. A summary of the results of audits of all school jurisdictions for the year ending August 31, 2000 is included in this Annual Report.

*Six of 72 school jurisdictions received qualified audit opinions*

Of the 72 school jurisdictions, six received qualified audit opinions. Four of the school jurisdictions' auditor's reports were qualified as a result of inadequate controls to verify the completeness of school-generated funds (this represents 6% of school jurisdictions compared to 28% for the previous year). Two jurisdictions received a qualified opinion because leased assets were inappropriately recorded as operating rather than capital leases.

*Results of school jurisdiction audits*

Auditors of school jurisdictions communicate findings to management when control weaknesses come to their attention when auditing the financial statements. Following is a summary of the audit findings and recommendations reported in writing to school jurisdictions by their auditors for the year ended August 31, 2000:

- **School-generated funds** – for 36 school jurisdictions, there is a need to improve controls over the processes used to collect, record and report school-generated funds.

- **Procurement and confirmation of receipt of goods and services** – for nine jurisdictions, controls over procurement and receipt of goods and services should be improved.
- **Cash management and security** – for seven jurisdictions, processes and policies over cash management should be improved.
- **Accounting for and tracking of funding** – for six jurisdictions, controls over timely and accurate recording of transactions, particularly as they relate to tracking funds allocated for specific purposes, could be improved.
- **Computer security** – for nine jurisdictions, a need for improved computer security and use was identified, including access controls and business continuity plans.
- **Payroll** – for nine jurisdictions, there is a need to improve the systems over the accurate and timely recording of payroll information.

---

## Alberta School Foundation Fund

Recommendation No. 33

**Allowance for assessment appeals and adjustments**

**We recommend that the Ministry improve the process used to determine the allowance for assessment appeals and adjustments.**

The School Foundation Fund reports revenue earned from education taxes. The revenue reported is the amount received from the municipalities net of expected losses from appeals and adjustments (technically referred to as a "provision").

Since the outcome of all appeals is not known at the end of the fiscal period, an allowance for assessment appeals and adjustments (the allowance) is recorded.

*A qualified opinion was issued*

A qualified opinion was issued on the financial statements of the Fund because the allowance was overstated by approximately $27 million. As a result of the allowance being overstated, revenue from school property taxes and net assets were both understated by approximately $27 million.

The overstatement in the allowance occurred for the following reasons:

*The allowance was overstated*

- The Ministry based the allowance for current year's revenue on losses from requisitions for the taxation year ended December 31, 2001 instead of the fiscal year ended

March 31, 2001. This means a portion of the allowance was being provided against revenue that would not be reported until the subsequent fiscal year.

- The Ministry included appeals where the outcome could not be estimated. Unless management has evidence to support the ascertain that the outcome is a likely loss, disclosure of these amounts, rather than accrual, is the appropriate reporting.
- All revenue from the supplementary taxes levied by the municipalities was included in the allowance. Since there were no expected appeals or adjustments for supplementary taxes, an amount should not be provided in the allowance for the amount of supplementary taxes received by the Fund.

*The allowance should be established in accordance with Canadian generally accepted accounting principles*

The Ministry should record an allowance in accordance with Canadian generally accepted accounting principles. To do so, the allowance should be established when there is likely to be a loss of revenue in the current or prior fiscal years.

## Other entities

Financial audits of the following were also completed for the year ended August 31, 2000.

Northland School Division No. 61
Alberta Teachers' Retirement Fund Board

# Post-Secondary Education

## Timeliness and reliability of data collection systems

*Data collected from PSIs is used in key Departmental activities*

*What the data is used for*

The public post-secondary institutions (PSIs) enter data into Departmental systems. The Department uses the data to:

- decide whether to approve new programs proposed by PSIs
- decide whether to support funding decisions
- assess performance of the post-secondary education sector

The Department is responsible for providing certain information about the PSIs to Statistics Canada.

*Previous recommendation replaced*

In the 1998-1999 Annual Report, we recommended (1999—No. 11) that the Department of Learning work with PSIs to improve the reliability of certain key performance indicators. This recommendation has not yet been implemented. This year, we expanded our examination to include the data referred to in our previous recommendation and other data collected in the Program Registry system, the Learner & Enrolment Reporting system, the Key Performance Indicator system and the Financial and Information Reporting System. The following recommendation updates 1998-1999 recommendation No. 11.

Recommendation No. 34

**Timeliness and reliability of data collection**

**We recommend that the Department ensure that data from PSIs, used to support funding and program decisions, is promptly collected and is reliable.**

## Timeliness of data submissions

*Data is not provided on a timely basis*

The Department has established deadlines for data submission into the Program Registry system, the Learner & Enrolment Reporting system, the Key Performance Indicator system and the Financial and Information Reporting System. The majority of PSIs did not submit the current year's data by the deadlines. Even when the deadline was extended by five months in one case, a significant portion of PSIs did not meet the extended date and submitted incomplete data.

*Non timely collection means grants are based on old rather than current information*

Late and incomplete data means the Department made funding decisions for the 2001 and 2002 fiscal years in amounts totalling approximately $97 million based on old data. In one case, the Department had to use data from 1994-1995. Had current data been available, the amount of the awards to individual PSIs may have been different.

The Department did not provide a *cost per student* figure in its annual report for the university category due to incomplete information. The Department was also delayed in meeting its reporting requirements to Statistics Canada.

*Department plans more stringent deadlines*

The Department plans to make next year's deadlines much more stringent. It aims to reduce delays by more closely tracking deadlines and notifying senior management in writing if a deadline is missed.

*Department needs other strategies to ensure timely data collection*

We support the Department's move towards more timely data submission. However we note that the Department currently has no effective strategy to promote timely data submissions, other than to report to PSIs those whose late submissions delay the payment of grants to all PSIs. We suggest the Department consider other strategies to ensure timely and complete data submissions. For example, the Department could consider notifying the PSI boards if a deadline is missed.

## Controls to ensure the reliability of data

*Guides do not indicate the controls PSIs should use*

The Department has guides and reporting manuals indicating how to input data into the Program Registry system, the Learner & Enrolment Reporting system, the Key Performance Indicator system and the Financial and Information Reporting System. But these guides and manuals do not outline the controls that PSIs should use to ensure the accuracy of their data.

The Department has developed an edit program that can be run by PSIs to analyze their data for errors, but PSIs do not use the program.

*Manual controls to check reliability are not always documented*

The Department could not provide a list of the procedures it used this year to assess the reliability of the data in two of the four systems we examined.

*Reliability of the data collected is unknown*

While the PSIs are responsible for submitting reliable data to the Department, the Department uses data input into these systems in its funding decisions. Controls should be in place at the PSIs and the Department to ensure reliable data and to ensure the Department pays the correct amounts to PSIs.

The Department is currently operating and making funding decisions based on data of unknown reliability.

*Unreliable data can lead to incorrect payments – here's an example*

In one case, the Department made an additional performance envelope grant payment in 2000-2001 because of an error in the original data submitted by a PSI. The PSIs performance envelope funding doubled from $109,242 to $219,921. This error was discovered only when the PSI questioned the funding figure.

*The Department should specify the controls that PSIs must use*

The Department now requires PSI Vice-Presidents to signoff on data submitted through three of the systems to help improve the accuracy of the data submitted. To further strengthen processes at the PSI level, the Department should specify the controls that PSIs should use and require each PSI to use the edit program. The Department should require Vice-Presidents to confirm in writing these controls are in place. The Department needs to also determine the procedures it should perform to ensure data is reliable.

# Public Post-Secondary Sector Capital Assets Policy Statement

Recommendation No. 35

**Capital Assets Policy Statement**

**We recommend that the Department of Learning, in consultation with the Departments of Infrastructure and Innovation and Science, provide an updated Capital Assets Policy Statement to the public post-secondary institutions.**

*The investment in sector capital assets is substantial*

The total investment in capital assets of the public post-secondary institution sector is substantial:

| Type of Capital Asset | Gross Cost<br>(includes appraised value for donated assets) | Net book Value as reported on the June 30, 2000 audited financial statements - Colleges/Technical Institutes and March 31, 2001 audited financial statements - Universities |
|---|---|---|
| | | (billions of dollars) |
| Buildings | $ 2.9 billion | $ 1.7 |
| Other capital assets | 1.7 billion | 0.6 |
| Total | $ 4.6 billion | $ 2.3 |

*PSIs need to determine the strategies they will use to fund long-term capital requirements*

Over the last several years, we have been recommending that PSIs develop a capital budgeting plan that identifies not only the institutions' long-term capital needs but also how the institutions plan to fund these needs. This planning includes determining whether capital assets will be funded through contributions, or operations. If financing is to be used, the plan needs to indicate whether future operations will be sufficient to allow for interest and principal payments.

We believe that failure to deal with how capital assets will be funded results in increased risk. These risks are manifested by a growing backlog of deferred maintenance and uncertainty about the size of infrastructure needed to support educational programs.

*PSIs need guidance on what to expect from the Province*

In long-term planning we believe that PSIs find it difficult to determine how capital assets will be funded without sufficient guidance from the Province. Institutions need to be able to make appropriate assumptions about capital funding they can generate themselves and what they can expect from the Province.

*Provincial funding practice has varied since 1995*

On May 31, 1995, the then Department of Advanced Education and Career Development issued a Capital Assets Policy Statement. The Statement clarified the responsibilities of PSIs for capital asset maintenance, replacement and betterment. Since that policy statement was released, Provincial funding practice has varied significantly.

*An updated policy statement is needed*

The Department is currently evaluating, with the Department of Infrastructure, the sector projects that will be funded over the next three years. The Department of Innovation and Science is also being consulted. At the conclusion of this evaluation, the Department, in consultation with the Departments of Infrastructure and Innovation and Science should update the 1995 Capital Assets Policy Statement and clarify the responsibilities of PSIs for funding capital assets. That will allow PSIs to understand the criteria used by the Departments to evaluate capital projects and the percentage ranges of funding of capital expansion and renovation costs that institutions are expected to provide. Once the Policy is in place, the Department of Learning should obtain reporting from the PSIs to determine if the Policy is being implemented.

## Deferred maintenance—critical health and safety risks

Recommendation No. 36

**Deferred maintenance—critical health and safety risks**

**We again recommend that the Department of Learning and the Department of Infrastructure obtain sufficient accountability information from post-secondary institutions to allow the Departments to evaluate the annual progress made towards addressing the critical health and safety risks of deferred maintenance.**

We have repeated our previous year recommendation (2000—No. 33) as it has only partially been implemented.

The PSIs are responsible for capital asset maintenance. The Province provides grant funding to PSIs to help reduce deferred maintenance. Since 1997-1998, a total of $178 million has been paid through the Infrastructure Renewal Envelope grant program to help PSIs reduce deferred maintenance and preserve facilities.

*PSI accountability reports did not identify annual progress towards addressing critical health and safety risk*

Prior to 2000, the institutions submitted to the Department of Learning, plans and summary accountability reports listing the initiatives undertaken with the grant program funding. Neither the plans nor the reports, however, indicated which projects address critical health and safety concerns. Such concerns include elevator and structural safety and fire suppression systems. Therefore, sufficient information was not available to determine the overall progress made towards reducing the critical health and safety risks of deferred maintenance.

During 2000, the grant program, and responsibility for funding the accumulated deferred maintenance, transferred to the Ministry of Infrastructure. However, the Ministry of Learning is responsible for working in partnership with the Ministries of Infrastructure, and Innovation and Science. The three Departments compile and evaluate post-secondary institution infrastructure needs and develop the informational requirements that post-secondary institutions are required to provide for capital planning.

*The Ministry of Infrastructure is now completing a new study-deferred maintenance of the sector is now estimated to have more than doubled since 1997*

The Ministry of Infrastructure is currently completing a comprehensive facility study to reassess the level of deferred maintenance within the sector and to evaluate the progress made with the infrastructure renewal program. Preliminary results from the study indicate that the backlog of deferred maintenance, including for critical health and safety needs, has more than doubled since 1997.

*The requirements for the PSI grant accountability reporting has not yet been developed*

The study includes health and safety as a category of deferred maintenance and also prioritizes all deferred maintenance needs. Once the study is complete, the critical health and safety issues will be identified. However, the accountability reporting from PSIs that will be required for the grant program funding has not yet been developed. Accordingly, the extent to which institutions will be required to report on their progress in reducing deferred maintenance relating to critical health and safety issues has not yet been established.

We will continue to monitor the Departmental and institutional progress in managing the sector's deferred maintenance.

---

## Budget review and approval process

*Previous year recommendation number 32 has been implemented*

Previously in 1999-2000, we recommended (2000—No. 32) the Department require PSI board approved budgets submitted to the Department be on the same basis of accounting as the financial statements. We also recommended that the Department ensure that the budgets of PSIs are reviewed and approved in accordance with Legislative requirements.

The requirements in the Acts governing PSIs state that the board of an institution shall not incur any liability or make any expenditure unless the whole of the liability or expenditure can be provided for out of the annual income of the year or out of other money available for the purpose, or unless the liability or expenditure is approved by the Minister.

We are pleased to report that the Department has recently issued revised business plan guidelines to PSIs. These guidelines now require PSIs to prepare business plan budgets on the same basis as the audited financial statements.

The Department has also developed a process to identify PSIs that are projecting a deficit budget. PSIs projecting a deficit are now required to explain the nature of the deficit, the PSI's plans for dealing with it, and the impact the deficit will have on future years. The Minister does not approve the budget unless he receives assurance that the deficit can be managed by the institution and is not cumulative.

---

## Athabasca University

*Previous year recommendation (2000—No 34) has been implemented*

Last year we recommended (2000—No. 34) that Athabasca University ensure sufficient information is contained in their planning documentation to enable senior management and the Governing Council to determine the University's progress in implementing the objectives set out in its plans. We are pleased to report that this recommendation has been implemented. Plans now indicate the individuals who are responsible for implementing initiatives, the costs and benefits of initiatives, indicators to measure progress toward implementation of initiatives, and timelines for completion of initiatives.

---

## University of Alberta

### Scope of work

In addition to the annual financial audit of the University of Alberta, the following work was completed:

- A follow-up review of the recommendations made in 1999-2000 for the University's budgeting process
- A follow-up of our previous year examination of the governance and accountability systems of the Council of Academic Health Centres. The results of this work are reported in the Executive Council section on page 94.

The March 31, 2001 financial audit for PENCE Inc., the University of Alberta 1991 Foundation, and Research Technology Management Inc. were in progress at the date of this report.

## Internal control systems

Last year we recommended (2000—No. 35) that the University of Alberta ensure control weaknesses are identified and corrected. As part of implementing this recommendation, we suggested the University review the assignment and the discharge of the controllership responsibilities within the University's overall structure.

*This recommendation replaces last year's (2000—No. 35)*

The following recommendation is a refinement and a replacement of the previous year recommendation. It indicates the first step the University needs to take to improve the overall internal control system.

Recommendation No. 37

**Internal control systems – University of Alberta**

**We recommend that the University of Alberta modernize and significantly improve its control systems. As a first step to improving control, we recommend the University determine the business model to be used in assigning responsibility and authority for implementing and enforcing control processes.**

A system of internal control consists of the policies and procedures to ensure the orderly and efficient conduct of the entity's business. It includes a system of checks and balances to ensure that financial data is reliable.

While the University has established certain high-level principles of accountability, we have not yet seen meaningful progress and changes to improve the organization-wide control system. The University needs to develop and implement a comprehensive model that will ensure the University has sufficient checks and balances to ensure the reliability of financial data. The University model needs to be modernized to take into account the different processes that are being performed by faculties and departments as a result of the change in computer systems. Such a model will determine how responsibility and accountability, including enforcement mechanisms for financial controls, will be delegated to the unit or department level.

*While the University has demonstrated some success, further action is required*

This year, the University has demonstrated some success at implementing controls, particularly when the Finance & Administration portfolio can perform those controls. However, we believe that these improvements merely establish basic internal control procedures that should always have been in place for the organization. For those control processes coordinated by Financial

Services that are affected by actions at the faculty or department level, we believe the University has had limited success in achieving effective controls.

*The University needs to determine the model it will use to implement and enforce the accountability system*

A key priority for the University should be to develop the necessary business model and ensure that sufficient resources are in place to implement and enforce the accountability system. For example, the University may decide that larger faculties have the capacity to be responsible for implementing more control processes than smaller faculties.

## Outsourcing arrangement

### Background

*On April 25, 2000, the University signed a tripartite agreement with two private sector companies*

On April 25, 2000, the University signed a tripartite agreement with two private sector service organizations to provide development and production services for the University's three PeopleSoft information systems:

- PeopleSoft Financials for the Public Sector
- PeopleSoft Human Resources for Education and Government
- Student Administration

*My staff reviewed the general control environments at these organizations*

As part of the financial statement audit of the University, in the absence of independent assurance on control procedures at the service organizations, my staff reviewed the following aspects of the service organizations' general control environments relating to the Agreement:

- organizational policies
- change management procedures
- access procedures
- operating procedures

The following observations are from that review.

### Opinion on adequacy of control procedures at service provider

**Control procedures at service provider – University of Alberta**

**We recommend that the University of Alberta obtain an appropriate level of assurance that information technology service organizations are maintaining effective controls to protect the confidentiality and integrity of University data.**

*The University has delegated responsibility for ensuring that controls are in place and are appropriately maintained*

When the University uses service organizations, transactions that affect the University's financial statements, as well as other sensitive data, are subject to controls that are, at least in part, physically and operationally removed from the direct management of the University. In essence, the University has delegated to the service organizations some of the responsibility for ensuring that controls are in place and are appropriately maintained.

*The University must ensure that internal control has not been compromised*

*Such assurance can be obtained through a CICA section 5900 opinion*

The University must still, however, ensure that internal control has not been compromised in any way. One way that the University can obtain such assurance is through a Canadian Institute of Chartered Accountants section 5900 opinion - *Opinions on control procedures at a service organization.* This provides an opinion on the design, effective operation and continuity of control procedures at a service organization.

*Management acknowledges its overall responsibility for developing and maintaining internal control*

In the *Statement of Administrative* Responsibility in its Annual Report, University management states:

> *In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The integrity of internal controls is reviewed on an ongoing basis by the internal audit department.*

*The University needs assurance that the service organizations' control environment is operating satisfactorily*

To meet its ongoing responsibilities, University management needs assurance from an independent source that the control environments within the service organizations are satisfactory. We recommend that management obtain such an opinion on the control procedures at the service organizations.

## Completion of schedules to Agreement

**Completion of Agreement with service providers - University of Alberta**

**We recommend that the University of Alberta finalize all incomplete schedules to the Agreement without delay.**

*Two important schedules to the Agreement are yet to be finalized*

Two important but incomplete schedules to the Agreement deal with the new development project management process and the decision-making framework. These schedules are critical to the success of future systems development at the University.

The Agreement indicates that the schedules are to include sections of a Manual to be drafted by a consultant (one of the parties to the Agreement). The Agreement required that a first draft of the decision-making framework (which defines the roles and responsibilities of the various parties to the Agreement) was to be ready by August 1, 2000, and a complete draft of the new development project management process by September 30, 2000. After review and acceptance by the University and the other party to the Agreement, these documents were to be attached to the Agreement as schedules.

*The University is waiting for key aspects of the Manual to be completed; the consultant responsible for the Manual believes that its obligations have been met*

A draft version of the Manual (dated January 2001) has now been prepared. We understand, however, that the University is still waiting for certain key aspects of the Manual to be completed before these schedules can be included in the Agreement. The consultant responsible for drafting the Manual, however, believes that its obligations have been met. The University should follow up on the status of the Manual, given the confusion about the status of deliverables from the consultant.

*All incomplete parts of the agreement must be resolved quickly*

For the Agreement to accurately reflect the responsibilities and contractual obligations of the various parties to the Agreement, all incomplete parts of the Agreement must be resolved as quickly as possible.

## Other recommendations

*Recommendations concerning control weaknesses were also made to management*

We made a number of other recommendations to management concerning control weaknesses. These included recommendations to improve controls over the following items:

- **Access control** - Some of the concerns noted included logons that are not disabled after a prescribed number of failed attempts, and passwords that are not required to be changed at regular intervals.
- **Change control procedures** - My staff noted a lack of adequate segregation of incompatible responsibilities, and the need for library change management software.
- **Operating procedures** - We noted that uniform documentation policies were not always followed, formal procedures for deleting terminated employees did not exist, and tape backup and recovery procedures were not formalized.
- **Network issues** - Lack of an intrusion detection system, firewall logs not being reviewed, and firewall rules needing to be reviewed and modified as necessary, were some of the concerns noted.

## University of Alberta's budget process

### Basis of measurement for budget – University of Alberta

**We again recommend the University of Alberta adopt a basis consistent with Canadian generally accepted accounting principles for its budget presentation and that the budget encompasses all operating, financing and investing transactions.**

We made the same recommendation (2000—No. 36) last year.

*We will continue to monitor the University's progress in implementing this recommendation*

The University has hired a consultant to review and make recommendations to improve its budget processes. We will continue to monitor the progress made by the University following the review.

## University of Alberta's net assets

### Net assets – University of Alberta

**We again recommend the University of Alberta determine the level of net assets that will be required to ensure that programs and faculties will continue to be supported.**

We made the same recommendation (2000—No. 37) last year.

*We will continue to monitor the University's progress in implementing this recommendation*

The University's Audit Committee formed a task force to the study the issue. The committee was in the process of documenting their conclusions at the time we completed our follow-up. We will continue to follow the progress of the University in implementing this recommendation.

# University of Calgary

## Scope of audit work

In addition to the annual financial audit of the University of Calgary, we completed the financial audits of the:

- Arctic Institute of North America and the University of Calgary Foundation (1999) for the year ended March 31, 2000,
- University Technologies International Inc. for the year ended March 31, 2001,
- NeuroSpheres Ltd. for the 31 month period ended December 31, 2000 and
- the statements of the Olympic Oval/Anneau Olympique as

prescribed by the Oval Long-term Operating Agreement and the Oval Long-term Amending Agreement for the year ended March 31, 2001.

The March 31, 2001 audits of the Arctic Institute of North America and the University of Calgary Foundation (1999) were in progress at the date of this report.

## Internal control systems

Recommendation No. 38

**Internal control systems – University of Calgary**

**We recommend that the University of Calgary strengthen its internal control systems.**

### Background

A good control system reduces the possibility of errors in the accounts. Internal controls include policies and practices that ensure the integrity of financial data.

*Weaknesses in internal control were noted during the financial audit*

During the financial audit, we noted that certain transactions were not recorded or were recorded in the incorrect period; the reconciliation process for accounts payable, donation receipts and accounts receivable was deficient; access security could be improved; and procedures for the approval of transactions could be strengthened.

### Recording of transactions

*When using non-integrated systems to record data, the data should be reconciled*

The University should have processes to ensure that all transactions have been captured in the financial system used to report results. In particular, where two separate systems are used, the amounts should be reconciled to ensure all transactions are recorded. For example, while sponsored research and other project accounts receivable were invoiced before year end and adjusted for in the research accounts on the one system, they were not included in accounts receivable at year end. The difficulty in using two non-integrated systems is that information can be recorded in one system and not recorded in the other system. It also takes more time to enter transactions twice.

### Reconciliation of accounts

*Deficient reconciliations*

The reconciliation process for accounts payable, donation receipts and accounts receivable was deficient. Some reconciliations were not performed regularly and others were not reviewed regularly. In some cases, an independent person did not review the reconciliations.

*A feature of internal control is an independent review of reconciliations*

Good internal controls include an independent review of monthly reconciliations by someone other than the person who prepares them. The purpose of this review is to monitor reconciling items, and detect errors and fraud.

### Approval of transactions

*Deficient controls*

Controls over approval of transactions could be improved. Instances were noted where the same person could initiate and approve transactions. Also, some payments are automatically processed without support.

*Transactions initiated by one person should be approved by another person*

Good controls ensure that transactions initiated by one person are approved by another person. Alternatively, exception reports can be produced when changes are made to specific data fields such as rates. This can help in preventing unauthorized transactions being processed and in detecting errors. Currently, some individuals have the ability to initiate and approve transactions as long as payments are not to themselves. There are no checks to assess the reasonableness of the payment or its compliance with University policy.

*University should consider linking its payable and receiving systems*

Certain invoices are currently processed without approval of the originator of the purchase. As the system used to record the receipt of goods is not linked to the payments system, it is not possible to verify that goods were received before paying these invoices. The University should consider linking the payables system and receiving system so the accounts payable department can ensure goods have been received before it pays for them.

## Capital project management

Last year we made a recommendation (2000—No. 38) on the alignment of capital project proposals with the long-term campus plan and strengthening of project management controls

*We will follow up our recommendations in 2001-2002*

We are pleased to report that the University has made satisfactory progress in implementing this recommendation. The University has developed a campus community plan to guide development and is implementing a cost management and reporting system. In order to give the University time to implement changes, we will wait until 2001-2002 to follow up progress against our recommendations.

## Balanced budget

In our 1998-1999 Annual Report we made a recommendation (1999—No. 17) to the University on its budgeting process. We will follow up on the progress against our recommendation in 2001-2002.

---

## Olympic Oval/Anneau Olympique

In my auditor's report on the statements of the Olympic Oval/Anneau Olympique, I reported that the Special Equipment Reserve balance is less than the amount required under the Agreements. The auditor's report should be read for full details.

### Financial statements

#### Financial statements – Olympic Oval

**We again recommend that the Oval improve its financial reporting to stakeholders by providing information on its assets, liabilities and cash flows.**

*Financial reporting to stakeholders could be improved*

The reporting prepared by the management of the Oval meets the requirements of the Oval Long-term Operating Agreements. However, reporting to stakeholders could be improved by providing information normally included in financial statements.

*There is a lack of information on the assets used to operate programs*

Currently, there is no information on the assets used by the Oval in operating its programs. For example, there is no disclosure on the equipment or the building used in providing programming or other activities of the Oval. The statements also do not include amortization, which is a reflection of the use of the capital resources employed by the Oval.

*Members, contributors, and creditors require information on use of resources*

Management is accountable to those that have provided resources to it for the appropriate use of such resources. Therefore, members, contributors and creditors require information about how the management of an entity has discharged its stewardship responsibility.

*Information is required to determine resource needs*

Providing information on the assets, liabilities, and cash flows assists funders in determining the resources available to the Oval and how the Oval used those resources. Information on the assets used to generate revenue can provide funders with information on the need to fund replacement assets, especially where the assets are nearing the end of their useful life.

---

# Arctic Institute of North America

**Contracts - Arctic Institute of North America**

**We recommend that the Arctic Institute of North America implement processes to ensure that arrangements for services provided to, or received from, third parties are supported by contracts that specify the services to be performed.**

*Contracts do not contain sufficient information*

We noted that some agreements for services do not contain information on all the responsibilities of the parties. In one instance, a contract did not contain clauses on dispute resolution or on the method for calculating the administration fee. In another, an invoice was received for work performed on a specific project for which there was no contract. The invoice was received and paid more than two years after the completion of the work.

To provide clarity on the services to be performed and the responsibilities of the contracting parties, the Institute should ensure that sufficient details are included in its agreements.

# Grant MacEwan College

## Financial processes

Recommendation No. 39

**Financial processes – Grant MacEwan College**

**We recommend that the College review its financial processes to increase efficiency and accuracy in financial reporting.**

Internal controls and financial processes are necessary to ensure the timely and accurate reporting of financial information. While the College has undertaken to improve the timeliness of the completion of year-end financial statements, the audited financial statements for the year-ended June 30, 2000 were not issued until March 15, 2001. The delays in completing this year's financial statements were caused by staff loss and extensive use of manual processes. The College had to rely on manual processes to compensate for the absence of automated processes to accumulate transactions in a way that met the college's financial reporting needs. Here are some ways the College can improve efficiency and accuracy in preparation of financial data.

*Here's how processes could be improved:*

- The College's year-end close process should ensure all year-end adjustments are recorded in the general ledger. Considerable effort was necessary to reconcile and correct balances as the opening general ledger balances for the year did not match the financial statements for the prior year.
- The College should either correct its computer program or eliminate incorrect transactions generated by the program for sick time and car allowances.
- The College should reconcile the unspent contribution amounts reported to contributors to the amounts recorded for deferred contributions in its financial statements.
- The College should explore having the payroll program changed to properly record vacation accrual. Since the program does not calculate the accrual on a basis consistent with the College's policies, the College has to manually calculate vacation accrual.
- The College should automate the financial statement preparation process. An automated reporting module would accumulate financial transactions that are now manually accumulated in *Excel* spreadsheets.
- The College should consider significantly reducing the number of accounts in the general ledger as there are currently thousands of accounts. Reducing the number of accounts would allow for easier accumulation of the financial data.
- The College needs to ensure that all transactions between the Grant MacEwan College Foundation and the College are eliminated in the College's consolidated financial statements.
- Internal financial statements should be prepared on the same basis as the year-end financial statements. During the year, the College prepares its internal financial statements on a basis that differs from Canadian generally accepted accounting principles (GAAP). At the year-end additional manual work is needed to adjust the internal financial statements to a GAAP basis.

## Facilities renewal

*As a first step implementing this recommendation, the College has identified the amount of internal resources to be used to fund long-range facility requirement*

Last year we recommended (2000—No. 40) that Grant MacEwan College perform an assessment of its long-range facility requirements and incorporate this assessment into a long-range capital plan. The plan should identify the costs expected and the amounts expected to be funded from contributions, financing, or the internal resources of the College. We are pleased to report that the College has made satisfactory progress in implementing this recommendation. As a first step in implementing this recommendation, the College has now approved the setting aside of certain amounts in a reserve to be used for capital replacement.

# Mount Royal College

In addition to the annual financial audit of Mount Royal College, my staff completed the financial audits of the Mount Royal College Foundation and Mount Royal College Day Care Society for the year ended June 30, 2000.

## Contracts

### Contracts – Mount Royal College

**We recommend that Mount Royal College improve its contract management to ensure that services to be provided are sufficiently detailed in contracts.**

*Agreements for provision of services are deficient for international courses*

Failure to effectively manage contracts can cause significant financial exposure for the College. The College does not have contracts for some of its international courses. Where there is no contract, the only evidence of the terms and conditions is a letter sent by the College to the entity for which the services are to be provided detailing the course dates and payment terms. The letters do not contain contractual terms such as dispute resolution mechanisms or penalties for non-performance.

*College may be at risk of financial loss in cases of dispute*

If there is a disagreement, the College may risk financial loss as there is no evidence that the entity to which services are being provided has accepted the College's terms and conditions, or even that the entity has seen the letter. If the College decides that a contract is not required, the College should obtain evidence that the entity has agreed to the course dates and payment terms.

# Southern Alberta Institute of Technology

In addition to the annual financial audit of the Southern Alberta Institute of Technology, we reviewed the Institute's systems to approve and manage construction contracts.

## Background

The Southern Alberta Institute of Technology is undertaking an expansion worth approximately $176 million. The expansion was designed to increase capacity and included construction of new buildings and the restoration of certain campus buildings.

We selected six projects valued at $94.5 million in total. These projects included both renovation and new construction. For each project, we reviewed the project proposal, bidding, vendor selection, contracting, change order management and vendor payment.

Recommendation No. 40

**Business case analysis and project management controls–Southern Alberta Institute of Technology**

**We recommend that the Institute improve the business case analysis for major projects and strengthen project management controls.**

## Business case analysis

*Detailed risk analysis should be prepared*

While the Institute had a number of items normally found in a business case, there was no risk analysis for the assumptions. For example, in its analysis for the initially approved projects of $133 million, the Institute included assumptions about increases in grants, earned revenue and tuition fees. The business case analysis could have been improved by demonstrating the impact on operations if any of the assumptions are not realized. We also noted one project, where the analysis was not complete. For the automotive centre, the analysis did not include an assessment of the impact of the new building on operating costs.

*Changes in estimates should be appropriately supported*

The Institute should consider how changes in project cost estimates affect the scope of the work. For one project, the original cost estimate exceeded the funds available. The cost estimate was reduced, but the scope remained the same. It is unclear why the cost estimate was reduced, as there was no analysis to support it. The project was completed as originally planned and at a cost close to the original estimate. As part of its analysis, the Institute should evaluate the support for the changes in cost estimates, especially where there is no change in the scope of the project.

## Project management controls

*Scope changes or large change orders should be reviewed*

For one project, there was a contract for the initial phase valued at approximately $517,000. The second phase, valued at $2.3 million, was processed as a change order. There was no tender or contract for the second phase. The cost of the second phase of the contract was significantly greater than the cost of the original phase. The completed contract was approximately 13.8% over budget. Where there are scope changes or large change orders, the Institute should review the scope to determine if the contract should have been tendered.

*Policy for review of contracts by Materials Management was not followed*

Under the current tendering procedures, Materials Management is to review all contracts before the documents are signed. One contract had not been reviewed by Materials Management and was actually signed approximately six months after the work started. Having contracts signed before work starts ensures that the parties are aware of, and agree to, the terms and scope of the work. The review by Materials Management can also detect potential problems or non-compliance with Institute policy, such as payment terms.

*Evaluations can be used to document performance for future reference*

Materials Management has included in their purchasing manual a form with criteria to assist evaluators to perform post construction reviews. We found no evidence of the review for the three completed projects we examined. The evaluation process is a useful tool to document the performance information for consideration in the Institute's future business dealings with the contractor.

## Conflict of interest policy and Code of Conduct

### Conflict of interest policy and Code of Conduct - Southern Alberta Institute of Technology

**We recommend that the Institute require annual disclosure of conflict of interest for staff involved in the procurement and project management functions. We further recommend that the Institute obtain conflict of interest disclosure from its contractors and review its code of conduct and ethics policy for contracted project management staff.**

*The Institute should require an annual disclosure of conflicts of interest*

Employees are required to disclose conflicts of interest. However, the Institute lacks a mechanism to ensure that all staff involved in procurement and construction project management follow the policy. A useful mechanism to ensure reporting by employees is an annual disclosure statement by staff, especially those involved in the procurement and project management functions.

*Application of the policy to contract staff is unclear*

It is not clear whether the Institute's code of conduct and ethics policy applies to staff hired under employment agreements. The Executive Director for the expansion project was hired on the basis of a "letter of understanding" and two project managers were also hired using employment agreements. There is no clause in the employment agreements requiring the person follow the Institute's code of conduct and ethics policy. The Institute should consider obtaining advice as to whether the policy does apply to staff hired under employment agreements. It could also consider incorporating into employment agreements, especially those of a short-term nature, the requirement for the person to subscribe to the Board approved policies and procedures. The Institute may also want to develop a policy to include those situations where there may be a perceived conflict of interest. In our review, we did not find any instances of non-disclosure.

## Other entities

An annual financial audit of the University of Lethbridge was completed for the year ended March 31, 2001.

Annual financial audits, for the year ended June 30, 2001, of the following entities were in progress at the date of this report. Any findings arising from these audits will be included in my next Annual Report.

Alberta College-Edmonton
Alberta College of Art and Design
Bow Valley College
Fairview College
Fairview College Foundation
Grant MacEwan College
Grande Prairie Regional College
Grande Prairie Regional College Foundation
Keyano College
Lakeland College
Lethbridge Community College
Medicine Hat College
Medicine Hat College Foundation
Mount Royal College
Mount Royal College Day Care Society
Mount Royal College Day Care Society
Northern Alberta Institute of Technology
Northern Lakes College
Norquest College
Olds College
Olds College Foundation
Portage College
Red Deer College
Southern Alberta Institute of Technology

# Legislative Assembly

## Overview

The expenses of the six Legislative Offices were:

| | 2000-2001<br>(in millions of dollars) |
|---|---|
| Legislative Assembly Office | $ 24.0 |
| Office of the Auditor General | 13.8 |
| Office of the Chief Electoral Officer | 9.4 |
| Office of the Ombudsman | 1.4 |
| Office of the Ethics Commissioner | 0.2 |
| Office of the Information and Privacy Commissioner | 2.5 |

These Offices do not administer significant revenue systems.

*The Legislative Offices each produce current financial statements*

I am pleased to report that financial statements and audits for all Legislative Offices are, or shortly will be, up to date. I am the auditor of all the Offices except, my own. The financial statements of the Office of the Auditor General were audited by a private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices.

*Previously part of General Revenue Fund financial statements*

Prior to 1998, financial reporting by Offices, other than the Office of the Auditor General, was limited to revenue and expense information that was included in the General Revenue Fund financial statements. With the move to ministry and departmental financial statements as at March 31, 1998, there was no longer a vehicle for reporting the results of the operations of the Offices.

Each of the Offices recognized the need to publicly report their financial performance. They also recognized that they should report to at least the same standard as government organizations. However, preparing financial statements was a new challenge for them.

*The auditor's report on the Ombudsman's financial statement contained a reservation of opinion*

All Offices, except the Office of the Ombudsman, chose to prepare financial statements in accordance with Canadian generally accepted accounting principles. The Ombudsman chose to follow the accounting practices established by Alberta Finance for departments. As set out in the auditor's report for the Office of the Ombudsman financial statement's for the year ended March 31, 2001, this decision resulted in material misstatement in the financial statements. The auditor's report contained a reservation of opinion because capital assets less than $15,000 are expensed and are not recognized as assets in the Ombudsman's financial statements.

# Municipal Affairs

## Overview

The mandate of the Ministry can be summarized as:

- helping to ensure public confidence in local government
- providing comprehensive safety systems and services for disaster and emergency situations
- supporting open and accountable government and the protection of privacy for Albertans through the *Freedom of Information and Protection of Privacy Act*

During the year, there were two main operating divisions: Local Government Services and Public Safety and Information Management. The latter division encompassed disaster services, safety services, and information management and privacy protection services.

The Ministry's ongoing responsibilities with respect to local government include monitoring municipal property tax assessment quality and adjusting the total assessments for each municipality as a basis for levying the Provincial education tax. These responsibilities carry high inherent risk and we have reviewed the Ministry's systems designed to address the risks. These risks are described below in conjunction with the observation and recommendation resulting from our review.

Turning to the other main operating division, the *Disaster Services Act* requires the Disaster Services Branch to act as consultant in preparation of the emergency plans of government departments. The Act places the Branch with responsibilities for the development, validation and revision of government emergency plans. It further requires the Branch to promote and coordinate the preparation and maintenance of emergency plans of departments and to coordinate the overall government response to an emergency. Under the Act, the Minister of Municipal Affairs has the power to review, approve and require modifications to Provincial emergency plans.

Government departments are required by the *Disaster Services Act* to develop business resumption plans to ensure they can provide essential services in emergencies. We have determined that, generally, these plans are absent or poorly developed and we have a concern that no one in government has the responsibility to coordinate business resumption plans across government departments.

The Minister has delegated many of his duties for administering various safety code regulations to four delegated administrative organizations (DAOs) and numerous other authorities. The four DAOs comprise:

- Alberta Boilers Safety Association
- Alberta Elevating Devices and Amusement Rides Association
- Alberta Propane Vehicle Administration Organization Ltd.
- Petroleum Tank Management Association of Alberta

The *Safety Codes Act* authorizes the Safety Codes Council, the four DAOs and the other delegated entities to perform duties and functions that are integral to the achievement of the Minister's responsibilities under the Act. I again raise a concern that these DAOs are not consolidated in the Ministry's financial statements.

Ministry expenses for 2000-2001 amounted to $162 million of which $121 million was spent on local government services, $11 million on disaster services, $19 million on safety services and $1 million on information management and privacy protection services. External revenues amounted to $5 million.

## Scope of work

In addition to the annual financial audit, my staff completed the following work:

- specified audit procedures were applied to the performance measures included in the Ministry's 2000-2001 annual report
- a review of the systems in place to manage the Ministry's responsibilities with respect to municipal property tax assessments

## Reporting entity

My auditor's report on the Ministry financial statements contained a reservation of opinion since they contain only the results of operations and net assets of the Department of Municipal Affairs. In my view, the Ministry's delegated administrative organizations (DAOs) and the Safety Codes Council should be included in these financial statements. These organizations require the Minister's approval of revenue-raising, expenditure and resource allocation policies related to their functions.

Safety services administration is the responsibility of the government. Therefore, consolidation of the DAOs and the Safety Codes Council with the Department of Municipal Affairs would provide a complete overview of the full nature and extent of the financial affairs and resources for which the Minister is accountable.

Had the Safety Codes Council and the DAOs been included in the Ministry's statements, then revenues, expenses, assets, liabilities and net assets would have increased by $12 million, $11 million, $13 million, $3 million and $10 million respectively.

---

## Municipal property tax assessments

Recommendation No. 41

**Municipal property tax assessments**

**We recommend that the Ministry improve the controls designed to ensure that municipal property tax assessments are fair and equitable.**

*Following devolution in 1995 of direct responsibility for the assessment of property, the Ministry performs audits of each municipality's total and individual taxpayers' assessments and adjusts every municipality's total assessment for education tax purposes*

Prior to 1995 the Ministry provided assessment services to the majority of municipalities. Assessors employed by the Province would undertake valuations of individual properties in accordance with legislation in order to determine a value upon which property taxes could be levied.

In 1995, responsibility for the assessment of property, other than linear property (pipelines), was passed down to the municipalities. Many of the Province's 360 municipalities elected to contract for assessment services while some, typically larger municipalities elected to employ their own in-house assessors.

As a result of this change, the role that the Ministry now plays in the assessment process has shifted towards a quality control and validation focus rather than the delivery of detailed assessment services.

As part of this changed role, the Assessment Services Branch of the Ministry is charged with responsibility for, amongst other things:

- monitoring assessment quality throughout the Province
- validating assessment amounts submitted by municipalities
- adjusting the total assessment submitted by municipalities to provide a basis for a Province-wide education tax. The adjustment is necessary to bring the assessment for a municipality to a more precise representation of total market values. It serves to remove disparities resulting from using

assessors unique to that municipality and is known as "equalizing" the assessment.

We have determined that, despite the effects of the equalization process, the inherent risk that assessments are inequitable, individually at the taxpayer level and in total at the municipality level, is high. We have reviewed the Ministry's systems designed to address the risks.

*Levying education tax on a municipality's total property tax assessments creates an incentive to understate assessment values*

The inherent risk has been increasing over the past several years as a consequence of:

- the Province now requiring municipalities to use the less well-defined market value as the basis for valuation of several property classes
- the Province now placing responsibility for assessment in the hands of municipally employed or contracted assessors rather than provincially employed assessors
- a natural incentive for municipalities to understate assessment values as a means by which to reduce their education property tax liability

We believe that to manage the high inherent risk of error and abuse under the current assessment model, the Ministry's detective controls have to be particularly strong. We are concerned that by understating assessment values, or through manipulating the assessment process, municipalities may be able to reduce their share of the education property tax requisition. Understatement of assessments does not necessarily translate into reduced municipal revenue from property taxes, as an increase in a municipality's mill rate can counteract the reduction in assessment values and provide the desired taxation revenue for the municipality.

*Notable weaknesses were identified in the Ministry's approach to managing the risks associated with the assessment process*

Our review of the systems established by the Ministry to manage the risks revealed the following:

- detailed field audits of assessment processes planned to be performed by the Ministry on each municipality every five years, are well behind schedule
- although the Ministry performs an annual desk audit on each municipality's annual tax assessments submission, these audits do not address the risk of misstatement unless supported by an effective program of detailed audits
- there are weaknesses in quality assurance of audit work completed by the Ministry
- there are weaknesses in the equalization process

*The Ministry has taken positive steps towards improving the audit and equalization process*

We recognise that the Assessment Services Branch has commissioned external studies and developed guides aimed at improving the quality and timeliness of audits. The Branch is also developing the Assessment Shared Services Environment system (ASSET) to improve the equalization process.

We believe that through the successful conclusion of these initiatives as well as the implementation of our recommended improvements, the risks associated with the property assessment process will be reduced to an acceptable level.

*The Ministry relies on 5-year detailed field audits as an important detective control*

One of the key strategies that were adopted by the Ministry to ensure that high quality, accurate and unbiased assessments were being prepared was a rolling program of detailed field audits.

The intended focus of these detailed audits was:

- to determine whether a municipality's assessments at market value are fair and equitable
- to determine whether assessments of regulated property are in accordance with the Minister's Guidelines
- to determine whether sound practices are being adopted by the municipality in the delivery of its assessment function

*Only 60 detailed audits have been performed since 1995 for 360 municipalities operating in the Province*

Since the devolution of assessment responsibility to the municipalities it has been the stated intention of the Ministry to undertake a detailed audit of each municipality every five years. To date the Ministry has completed approximately 60 detailed audits for the 360 municipalities within the Province. Given that municipalities have been responsible for conducting their own assessments since 1995, this is well below the target rate of approximately 70 municipalities per year.

The slow progress in meeting the target rate for detailed audits was raised as an issue by the Minister-appointed Equalized Assessment Panel in its report of July 2000.

*Annual desk audits are limited in scope and cover some statistical analysis of municipal submissions only. Assessments of regulated property are not addressed*

In addition to detailed audits, each municipality is subject to an annual desk audit of its assessment amounts. The annual audits involve limited statistical analysis of the assessment amounts submitted by the municipality to the Ministry each year as part of the equalization process. The annual audits do not cover assessments prepared for regulated property classes such as "farmland" and "machinery and equipment."

*Audit documentation and review procedures are deficient*

Documentation and quality assurance review procedures of both the detailed and annual audit work performed are weak. For audit tests performed, the following is not adequately documented:

- objective of the test
- work performed to achieve that objective

- sample selected (where relevant) and the basis of selection
- results or findings arising from the work performed
- conclusion with reference to the objective of the test signed off by the person that completed the test

At present, reports on detailed audits are reviewed upon completion but minimal formal review is performed during planning and audit execution. A best practice audit quality assurance system would include some form of peer or supervisory review during each stage of an audit (i.e. planning, execution and reporting).

*There are weaknesses in the equalization process*

A number of weaknesses were noted in the equalization process that has the potential to compromise the quality of equalized assessments. These include:

- the lack of a reconciliation between assessment rolls audited by the Audit Unit of the Assessment Services Branch and those used by the Equalized Assessment Unit as the basis for calculation of equalized assessments
- the lack of a formal approval process for changes processed to a municipality's assessment levels after they have submitted their return to the Equalized Assessments Unit but prior to the calculation of the education property tax requisition

The successful implementation of the ASSET system in 2002 should assist in mitigating these risks. It will provide the Ministry with direct access to each Municipality's assessment role for the purposes of both annual audits and the calculation of equalized assessments thereby removing the need for separate returns for both audit and equalization.

## Business resumption planning

In my 1999-2000 Annual Report, I recommended that the Ministry establish a business resumption plan for the Ministry of Municipal Affairs.

*The Ministry has developed its own business resumption plan*

I am pleased to report that the Ministry accepted my recommendation and, in the period since, has developed a comprehensive business resumption plan. The plan encompasses a plan for each branch of the Ministry and includes a section that addresses plan testing and maintenance.

*Disaster Services Branch is also responsible for emergency planning*

The Ministry also has responsibility for emergency planning. The *Government Emergency Planning Regulation* (AR 62/2000) made pursuant to section 5 of the *Disaster Services Act* requires:

- the Disaster Services Branch to promote and coordinate the preparation and maintenance of the emergency plans of departments
- a Department's emergency plan to be prepared in consultation with the Disaster Services Branch

A Schedule to the Regulation describes the functions of departments in emergencies. The Disaster Services Branch is assigned the task of coordinating the government response to emergencies.

Under section 3 of the *Disaster Services Act* a deputy head of a department must ensure that the department:

- prepares and maintains emergency plans that include the department's functions assigned to it by the Schedule
- prepares and maintains a business resumption plan to ensure that the department can provide essential services in emergencies

There is nothing in the Regulation to indicate that a business resumption plan is part of a department's emergency plans. Thus, on the face of the Regulation, Disaster Services is not required to promote and coordinate the preparation by government departments of business resumption plans.

*No one appears to be responsible to coordinate business resumption plans across the entire government*

The Ministry has indicated that based on the legislation, that it has no responsibility for promoting or coordinating business resumption plans of government departments. We agree that the legislation does not give the Ministry this responsibility. However, this Office is concerned that, at present, no branch of government is taking active responsibility for coordinating business resumption plans across the entire government. Nor is there any single department or branch promoting the development of such plans.

*Poor or no business resumption plans in nine government departments*

In the current year, this Office has made recommendations and/or identified the need to develop or complete business resumption plans in nine major departments.

*The Ministry will provide services to coordinate business resumption plans across the government*

The Ministry shares our concerns that no branch of government is taking active responsibility for coordinating business resumption plans across the entire government. Municipal Affairs has recently indicated that they will be taking immediate steps to address the concerns by allocating resources to the Disaster Services Branch that will enable the Branch to extend the same services for business resumption plans as they currently do for emergency plans.

## Ministry financial statements

I conducted an audit of the financial statements of the Ministry of Municipal Affairs as at and for the year ended March 31, 2001. My auditor's report contained a reservation of opinion as discussed above. I also drew attention to a further departure from Canadian generally accepted accounting principles caused by the Department expensing capital asset purchases under $15,000 in the year of acquisition.

## Other entities

Financial audits of the following were also completed for year ended December 31, 2000:

Improvement Districts 4, 9, 12, 13 and 24
Kananaskis Improvement District
Special Areas Trust Account

# Resource Development

## Overview

The Ministry of Resource Development comprises two operating entities, the Department of Resource Development and the Alberta Energy and Utilities Board. In addition, the Alberta Petroleum Marketing Commission is directed and operated by staff of the Department. The Ministry's mission is "to optimize the sustained contribution from Alberta's resources in the interests of Albertans." The Department allocates the Crown-owned resource base to industry and supports the development of the oil and gas and other resource industries; it also collects the Crown's share of revenues. The Board regulates the oil and gas industry by approving development, monitoring and enforcing regulations, and collecting critical data. In 2000-2001, the Ministry expended $144 million to perform these functions.

## Summary of audit results

The Ministry runs numerous programs that influence the energy industry and thereby impact the Province as a whole. The Ministry should provide information that helps to gauge whether the "sustained contribution from Alberta's resources" has been optimized. The performance measures that appear in the Ministry's *Annual Report* should be a key resource in providing readers with an overview of the Ministry's progress in achieving its mission. However, the Ministry's measures change significantly from year to year, making assessment over time difficult.

The Ministry's non-renewable resource revenues are so large that smaller programs may seem not to receive the attention they deserve. Nevertheless, the Ministry's external financial reporting should portray these smaller programs accurately and completely. This year, we comment on the Department's accounting for royalty reduction programs and Rural Gas Co-op grants. Programs that reduce royalties in order to influence industrial activity should be disclosed so that readers can assess their success. The accounting for Rural Gas Co-op grants should follow Canadian generally accepted accounting principles. Our recommendations will improve the financial statement presentation of these programs. As a result, readers will be better positioned to assess the Ministry's contributions.

Reliable production data is essential to a successful oil and gas industry. It is also essential to the Ministry's management of risks and resources. The Production Audit Group at the Board is responsible for adding assurance to the Province's oil and gas production data. The Group has been in decline for a number of years and the Board is in the process of revitalizing the function. Our recommendation encourages the Board to determine the essential needs for this data and devise an audit strategy that addresses those needs and related risks in a cost effective manner.

## Scope of work

In addition to the annual financial statement audits of the Department and the Ministry:

- We applied specified auditing procedures to the performance measures that appear in the Ministry's *Annual Report*.
- We followed up the recommendation that we made last year regarding the Department's oil marketing automated systems. These are the systems that were inherited from the Alberta Petroleum Marketing Commission when the Ministry privatized the marketing of crown oil volumes in 1995. Reasonable progress has been made in addressing the technology-related risks that we outlined last year. We will continue to monitor the Department's activities.

## Ministry performance measures

*A limited number of key performance measures enhance accountability*

The *Government Accountability Act* requires ministries to include "measures to be used in assessing the performance of the [ministry] for each of the core businesses." For these measures to be useful, they need to track performance over time and show trends. A limited number of key measures can portray progress. Executives should use these key measures in managing their business. However, the Ministry's practices with regard to performance measures make it difficult to achieve these criteria.

Recommendation No. 42

### Defining performance measures

**We recommend that the Ministry define and use performance measures that evaluate the success of the Ministry over time.**

*A summary count of the Ministry's performance measures*

The core businesses of the Department and Board have been relatively stable for many years. For the ongoing Departmental and Board businesses, the Ministry has presented the following number of measures. We have not included in our numbers those measures that relate to businesses that have moved out of the Ministry over time, such as Climate Change or the Northern Alberta Development Council.

*Performance measures reported in the Ministry Annual Report*

| Fiscal year | Department | Board | Total |
|---|---|---|---|
| 1996-1997 | 5 | 6 | 11 |
| 1997-1998 | 6 | 4 | 10 |
| 1998-1999 | 10 | 7 | 17 |
| 1999-2000 | 10 | 5 | 15 |
| 2000-2001 | 12 | 7 | 19 |

*Many measures that change frequently*

Not only are there many and a generally increasing number of measures, but those measures also change from year to year. The average lifespan of the Departmental measures summarized above is 1.7 years; for Board measures, 2.1 years. Of 40 measures that have been used since 1996-1997, only three have lasted more than three years. For 2001-2002, the Ministry's published business plan shows that there are many new measures contemplated for the Department, although most have not yet been defined. We understand that there may be as many as 25 measures in total for 2001-2002; only 8 will carry forward from 2000-2001. For measures to be effective, they need to show trends over time. Changing measures every few years does not help readers understand the progress of the Ministry.

*Ministry measures now address a variety of issues*

The Ministry's measures often highlight issues that have acquired recent publicity, such as electricity deregulation or ethane upgrading. The measures tend to report the Ministry's inputs and outputs, but not its outcomes or results. In many cases, the Department seems to measure the progress of the oil and gas industry. The Board provides management information on projects or processes within its organization.

*The Ministry should settle on key measures*

The Department and Board need to settle on useful outcome or result measures. It is always a challenge to determine which measures adequately reflect a ministry's performance. However, the task is simplified as Resource Development's businesses do not change radically from year to year. These new measures need to be tracked over time to judge progress.

**Improving the year end process**

**We recommend that the Ministry improve coordination of the year-end process for creating its performance measures.**

*Communication surrounding the year end process can be improved*

We noted a lack of communication among those involved in performance measure preparation and presentation at year end. There were three types of problems. First, the requirements of the Department for the timing of draft submissions did not appear to be communicated to the appropriate persons at the Board. Second, there were communication and timing problems within the Board itself. Lastly, there were communication and timing problems that arose between the individual entities and our audit staff.

*Accountability should be assigned at a senior level*

The lack of clear accountability for these measures indicates that they are not valued or used by senior management. Senior executives should be accountable for the year-end process. At the Department, it is not clear who is, or who should be, accountable for the process. At the Board, the Audit and Finance Committee would naturally be the group to take responsibility.

## Disclosing royalty reduction programs

*The ARTC is separately reported in the financial statements*

Beginning in 2000-01, the Department is reporting the Alberta Royalty Tax Credit (ARTC) in its financial statements. This program, previously reported on Treasury's financial statements, is shown as a separate line item on the Revenue schedule in the Department's statements. The Department now has a mixture of presentation regarding royalty reduction programs. The ARTC is disclosed, while other programs that are at least as large in dollar amount are not disclosed.

**Recommendation No. 43**

**Disclosing royalty reduction programs**

**We recommend that the Department disclose its royalty reduction programs in its financial statements.**

*Holiday and incentive programs are not reported*

The Department has many holiday and incentive programs. They reduce the amount of royalty that industry pays to the Department. In total, conventional oil and gas programs reduced revenue flows by $314 million in 2000-2001. Oil programs include the Reactivated Well Royalty Exemption Program; gas programs include the Deep Gas Royalty Holiday. These programs were established at least seven years ago to stimulate the oil and gas industry. Many years ago, the Department presented the financial impact of these programs in their *Annual Report*. However, in recent years there has been no external reporting of the amounts related to these programs.

*The Department does not intend to report separate programs or initiatives*

New programs and initiatives have been and perhaps always will be initiated to spur industry or resolve conflicts. For example, in the Ministry's 2000-2001 financial statements, note 11 outlines the negotiations regarding possible compensation for natural gas producers in certain bitumen fields. We have been told that, should these negotiations lead to a waiver of royalty, the waiver would not be separately disclosed in the Department's financial statements.

*Complete financial information is critical to accountability*

To assess the effectiveness of the Department's programs and decisions, this financial information is necessary. The Department responds that too much information will be presented and that it will be incomprehensible to readers. As well, the Department is concerned that today's royalty reduction programs would not be matched with the increased royalty flows expected in future years. However, the Results Analysis that appears with the financial statements in the Ministry's *Annual Report* is the ideal venue to explain these relationships. We believe that accountability requires disclosure of these material amounts.

## Grant recognition policies

**Grant recognition policies**

**We recommend that the Department account for Rural Gas Co-op grants in accordance with Canadian generally accepted accounting principles.**

*Rural Gas Co-op grants*

The Department gives out a significant number of Rural Gas Co-op grants each year. These are cost sharing grants where the Department shares certain eligible costs in the development or upgrade of gas distribution facilities. In most cases, the recipient is advanced 75% of the expected grant amount, and paid the balance when the work is completed and all necessary documentation is received.

*Current accounting practice is inconsistent with GAAP*

The accounting for Rural Gas Co-op grants is inconsistent with Canadian generally accepted accounting principles. The Department's current practice is to expense all amounts advanced, whether or not the recipient of the grant has performed the work. In some cases, amounts committed but not yet advanced have also been accrued. Additionally, the amount of the holdback may sometimes be expensed before any work has been performed.

*Amounts are accrued before work is completed*

In our sampling, we tested one grant in the amount of $1,741,000. The entire amount including the holdback was fully expensed in March 2000. However, the project has been postponed and has still not begun its work. In another sample, $78,750 was approved for work to be done in the 2001-02 fiscal year. Although no money had been paid, this amount was accrued at March 31, 2001 because it was considered to be a committed grant.

*Funding should be recorded as advances until work is completed*

Where the recipient has not incurred eligible expenses, no grant expense should be recorded. Where amounts are paid out for work that has not been completed, the payment should be accounted for as an advance, not a grant expense.

## Alberta Energy and Utilities Board

*Reservation in our auditor's report*

We conducted an audit of the financial statements of the Alberta Energy and Utilities Board for the year ended March 31, 2001. My auditor's report contained a reservation of opinion that resulted from the Board following the corporate government accounting policies and reporting practices as established by the Treasury Department. A capital lease has been recorded as an operating lease.

### Scope of work

In addition to the annual financial statement audit, the following work was completed:

- We examined the Board's plans for its Production Audit Group.
- We monitored progress against our 1998-1999 recommendation regarding the Board's strategic information systems plan (see page 140 of that year's *Annual Report*). The Ministry's Volumetric Infrastructure Petroleum Information Registry has determined its scope. Following that determination, the Board was able to define the strategic direction for the well and production systems that we highlighted. As a result, the Board has successfully implemented our recommendation.

## Production audit

*The importance of production data*

The Board collects and distributes production data from oil and gas wells and related facilities throughout the Province. This data has many users. The Board uses it to develop and monitor energy conservation policy. The Department uses the information in the calculation of royalties and the development of energy policy. Industry accesses and analyzes this data to make economic and production decisions.

*Background on the production audit function*

The Board has had a production audit function in place for at least 20 years. This is one of the Board's major assurance activities related to production data. Taken as a whole, these activities ensure that production data is accurate and complete. From time to time, beginning in 1981, we have raised concerns that the production audit does not provide sufficient assurance, particularly for the calculation of royalties at the Department. Our last management letter to the Board on this topic was dated December 1990.

*Production audit withered in the 1990s*

The Production Audit Group may have reached its most effective level of activity in the late 1980s and early 1990s. At that time, the Board had reached a formal agreement, called the Production Operations Surveillance Program (POSP), with the Department regarding field audit requirements and shared responsibilities. Both the Board and Department had sufficient staff to deliver the services on which they had agreed. However, beginning in the early 1990s, cutbacks in manpower resulted in the erosion of the POSP. In 1994, the Group adopted a risk-based approach to its duties. With this audit approach, the Group identified high-risk producers and tried to improve reporting by working with these producers to improve their accuracy. In 1998, the Group launched a pilot project where two producers audit themselves, under the direction and review of the Board. By 2000, there were only three staff left in Production Audit Group, and there has been no full time leader since 1999.

*A consultant reviewed the production audit function*

In 2001, the Board hired a consultant to review whether the Board was meeting the needs of its customers regarding the Production Audit function. The consultant's report recommended a model that, for most of the population to be audited, would yield a statistically verifiable 95% assurance rate. This model would be supplemented by the industry self-audit program and less rigorous measurement reviews for low risk producers. We understand that the Board feels that this mix is not practical due to cost constraints. However, in the absence of the recommended approach, there does not appear to be a formal strategy to guide the Group and to form the basis for accountability reporting.

Recommendation No. 44

**Risk analysis and audit strategy for the Production Audit Group**

**We recommend that the Board undertake a risk analysis to determine expectations and requirements for its Production Audit Group. Further, the results of the risk analysis should form the basis for a documented audit strategy.**

*Stakeholder opinions on the requirements and risks of the data are essential*

It does not appear that there has been extensive stakeholder input into the Production Audit Group's activities for many years. Inside the Board, stakeholders have annually been invited to input their business needs but have not provided much feedback. Since the POSP arrangement dissolved in the early 1990s, the Department has not been much involved with the Production Audit Group. However, the consultant's report indicates that the Department is still concerned about the quality of production data. Industry also has needs that have not been canvassed lately. The interviews reported in the consultant's report indicate that all stakeholders are interested in the audit process and have ideas about what is required.

*The Production Audit Group should develop an audit strategy*

An organized and thorough canvassing of stakeholders' business needs will indicate what is important with this data, where the risks lie, and what stakeholders believe an audit should deliver. With a foundation based on stakeholder input in place, the Production Audit Group should devise an audit strategy. This will be a high level plan to identify the mix of audit approaches that will satisfy the business needs and risks of stakeholders and the Board. The mix of audit approaches will set the general parameters for detailed annual operational plans, resourcing, and staffing.

*Stakeholder opinions and strategy are the foundation for accountability*

This process should also be the first step in an accountability cycle that will ensure that the Production Audit Group's activities are effective and efficient. Given concerns about manpower and resources, audit approaches that minimize the burden on Board personnel are important. Opportunities may exist to share assurance initiatives with Departmental or industry personnel.

## Ministry financial statements

We conducted an audit of the financial statements of the Ministry and Department of Resource Development for the year ended March 31, 2001. My auditor's reports contained reservations of opinion. Capital assets costing less than $15,000 have been expensed in the year acquired. Also, a capital lease has been recorded as an operating lease.

## Other entities

A financial statement audit of the Alberta Petroleum Marketing Commission was also completed for the year ended December 31, 2000.

# Treasury

## Overview

*Government restructuring effective April 1, 2001*

As a result of the government restructuring announced on March 15, 2001, Treasury Ministry responsibilities were transferred to the new Ministries of Finance and Revenue, effective April 1, 2001. This report is on the responsibilities and activities of Alberta Treasury for 2000-2001. However, the recommendations for improvement are addressed to the new Ministries.

*The Treasury Ministry mission*

The Treasury Ministry mission as stated in the 2000-2001 Business Plan is:

"To provide excellence in financial management, services and advice to achieve a healthy and sustainable financial condition for the Province with the lowest possible taxes for Albertans."

*Six core businesses*

The Ministry has six core businesses:

1. Provide analysis and recommendations to the Provincial Treasurer and Treasury Board.
2. Maintain a framework that fosters government accountability.
3. Administer and collect tax revenue.
4. Manage the Province's financial assets and liabilities.
5. Foster a fair and efficient financial marketplace.
6. Provide financial services through Alberta Treasury Branches, Alberta Municipal Financing Corporation and Alberta Pensions Administration Corporation.

*The Ministry of Treasury manages significant financial resources*

The Ministry directly manages significant financial resources. In 2000-01 the amounts were:

| | |
|---|---|
| • Revenues | $8.9 billion |
| • Expenses | $1.6 billion |
| • Assets | $22 billion |
| • Liabilities | $16.2 billion |

Further, the Ministry directly manages trust funds under administration of $20.2 billion, mostly in connection with public sector pension plans.

*Responsibility for the preparation of the Province's consolidated financial statements*

The Provincial Controller prepares the Province's consolidated financial statements. However, the individual ministries are responsible for the collection of revenues and for controlling and making disbursements.

In 2000-01 the Province's consolidated financial statements included[1]:

| | |
|---|---|
| Revenues | $25.6 billion |
| Expenditures | $19.2 billion |
| Net results of operations | $6.4 billion |
| Assets | $26.9 billion |
| Liabilities | $22.6 billion |
| Net assets | $4.3 billion. |

*Audit focus on Ministry risks*

In planning the extent of our audit activities, we consider risks related to material misstatement of the annual financial statements of the Ministry and its component entities. In addition, we consider business risks related to the responsibilities of the Ministry. As a result of our focus on significant business risks of the Ministry, this year we have made recommendations to improve accountability and reporting as follows:

- The Department of Finance to change corporate government accounting policies and improve reporting throughout the year.
- The Department of Finance to improve management discussion of performance in Measuring Up.
- The Department of Finance to improve accountability to the Legislative Assembly for social and economic benefit programs funded from the tax system.
- Alberta Treasury Branches to improve internal controls and assess the reliability of the general loan loss allowance methodology.

## Financial statements of the ministries and departments

*Basis of accounting*

Ministries and departments are required to follow the corporate government accounting policies and reporting practices. Those accounting policies have been established by the Department of Treasury and are applied on a consistent basis across ministries and departments. For the 2000-2001 fiscal year, there continue to be reservations in my auditor's reports on the financial statements of ministries and departments because, in my opinion, not all of the corporate government accounting policies meet the definition of Canadian generally accepted accounting principles.

---

[1] These amounts are after consolidation adjustments and therefore will not be the same as the amounts reported by individual ministries.

## Corporate government accounting policies

Recommendation No. 45

**Corporate government accounting policies**

**We again recommend the Department of Finance change the corporate government accounting policies in order to improve accountability.**

We made a similar recommendation (2000—No. 42) last year.

*Cost allocation has been resolved*

Before dealing with the specific issues of 2000-2001, I wish to acknowledge that, during the year, a major concern was resolved with the adoption in ministries financial statements of an acceptable methodology to allocate all significant costs to the ministries that incurred the costs to deliver their programs.

*Working together on unresolved issues*

My Office and the Department of Finance continue to work, together with ministries, to seek solutions to unresolved issues. For example, on the reporting entity issue and on the issue of using capitalization threshold amounts for assets, as discussed later in this section of this report. I will continue to include reservations in my auditor's reports on the financial statements of the ministries and departments until these issues are resolved.

*Specific issues remaining in 2000-2001*

Similar to the 1999-2000 fiscal year, there are reservations in my auditor's reports on the 2000-2001 financial statements of most ministries and departments. Substantially all of the reservations resulted from the ministries' compliance with corporate government accounting policies and reporting practices that we believe are inappropriate.

*Purpose of audit reservations is to focus on improved accountability and alert readers that the financial statements are not complete and accurate*

The purpose of these audit reservations is to maintain a focus on all of the assets, liabilities, revenues and expenses for which the management of the ministries are accountable, including performance measurement and financial management responsibilities. The reservations alert readers that the related financial statements are not in compliance with Canadian generally accepted accounting principles. Also, where possible, the reservations provide the reader of the financial statements with the supplementary information that is missing from the financial statements.

## Assets, liabilities, revenues and expenses

Financial statements of the ministries and departments should include all assets, liabilities, revenues and expenses of the ministries and departments.

## Reporting entity

*The reporting entity should be expanded*

For several years I have reported that certain entities have been inappropriately excluded from the reporting entity. For example, I continue to believe that regional health authorities, universities and colleges, and school jurisdictions should be consolidated respectively in the financial statements of the Ministries of Health and Wellness and Learning, as well as in the consolidated financial statements of the Province. This matter is discussed in greater detail in the sections on the Ministries of Health and Wellness, Learning, Municipal Affairs and Community Development.

For 2000-01 there were reservations on this matter in my auditor's reports on the financial statements of those ministries.

Since I last reported on efforts to seek a solution to the difference of opinion between the government and my Office on the reporting entity issue, there have been two developments worth noting. Firstly, the CICA Public Sector Accounting Board's project to provide additional guidance on the definition of the reporting entity has progressed to the issuance of draft material for comment by the Board's associates. It is not yet clear when any fresh guidance will be issued as a formal exposure draft. Secondly, a reporting entity working group comprising Finance, Learning and Office of the Auditor General members has met three times to consider position papers prepared by the members. The group is exploring the practical matters to be addressed if post secondary institutions were included in the government's reporting entity, and aims to suggest a strategy for determining an accounting solution that could be acceptable to the government and the Auditor General. Although it might appear that the government and my Office are at an impasse, I am pleased that we are trying to find a solution that respects our perspectives and meets Canadian generally accepted accounting principles.

## Assets

*Assets are not recorded*

As in prior years, there were reservations in the financial statements of a majority of the ministries because departments applied a corporate government minimum threshold amount for capital assets. For example, a department purchased capital assets at a cost of less than $15,000. That cost was expensed in the year rather than being capitalized and amortized over the useful lives of the assets. Consequently, a significant amount of resources available to a department in future years were recorded as if they had been consumed in the current year. At present, the minimum threshold is being used as a practical, but in many cases an inappropriate, method to establish the annual cost for the usage of some capital assets.

In the 2001-02 year, my Office will be working with Alberta Finance staff in an attempt to resolve the capitalization threshold reservations. Further, my Office is conducting a survey on this matter with the Legislative Audit Offices of the senior governments in Canada and has also undertaken to conduct research on how capitalization threshold amounts are determined in both the public and private sectors. Preliminary results of our survey indicate that no individual government except Alberta requires minimum value thresholds to be imposed on the entities within the reporting entity.

In addition, there were other reservations of opinion in my auditor's reports concerning assets:

- In the Ministry of Resource Development, an equipment lease is being incorrectly expensed, rather than capitalized as an asset and amortized over the useful life of the equipment.
- Inventories are not recognized in the financial statements of the Ministry of Environment.

## Liabilities

*Liabilities are misstated in ministries financial statements*

There was a reservation in the auditor's reports on the financial statements of the Ministry of Environment and the Ministry of Infrastructure, because liabilities for site restoration costs had not been recorded. In the Ministry of Justice a reservation of opinion was made because liabilities for accident claims costs and Crimes Compensation Board awards were not established. Also, in the Ministry of Innovation and Science a reservation resulted from the recording of a liability and the related expense for services to be rendered in future fiscal years. The Ministry of Learning auditor's report included a reservation of opinion because of an overstatement of liabilities and the related understatement of school property tax revenue.

## Discontinued operations

*Lack of disclosure of discontinued operations*

There was a reservation in the auditor's report on the Ministry of Environment financial statements because of the lack of disclosure of discontinued operations on the financial statements, rather than in the accompanying notes.

## Legislative non-compliance

*There was legislative non-compliance in five ministries*

In the auditor's reports for the Ministries of Gaming, Health and Wellness, Innovation and Science, Learning, and Treasury, I reported that certain expenses reflected in the financial statements were either not in compliance with the applicable governing legislation, or legislative authority was not in place.

## Administered funds in ministries

Administered funds in ministries

We recommend the Department of Finance, with the Department of Community Development, deal with unauthorized funds at the Michener Centre Facility Board and coordinate, in conjunction with other ministries, a review of funds of all ministries to ensure compliance with statutory authority.

*Alberta Finance and Community Development need to deal with unauthorized funds in the Michener Centre*

The section of this report on the Ministry of Health and Wellness mentions that about $1 million was not reported in the financial statements for the Michener Centre Facility Board. The unreported funds were held in a number of bank accounts into which were paid revenues from a number of businesses operated at the Centre. These funds were established either without any statutory authority or in contravention of Treasury Board Directives under the *Financial Administration Act*. There is a need for the Department of Finance, with the Department of Community Development, to deal with the unauthorized funds identified in my audit of the Michener Centre's affairs by terminating them or ensuring that they are re-established under proper statutory authority.

*Alberta Finance needs to coordinate a review of funds of all ministries to ensure compliance with statutory authority*

There may well be other similar unauthorized funds being administered by other ministries. There is a need for the Department of Finance to coordinate, in conjunction with other ministries, a review to identify funds that have not been legally established or that are administered in contravention of any Treasury Board Directives under the *Financial Administration Act*.

## Other matter

*Alberta Finance leadership is needed in accounting for grant expenses*

In addition to reservations in the auditor's reports of ministries, there is a further issue that needs to be addressed by the Ministry of Finance, namely, accounting for government grants. Although the Public Sector Accounting Board (PSAB) has an accounting standard, including criteria, for grant expenses, there was inconsistency by ministries in the application of the accounting standard. We note in the Ministry of Agriculture, Food and Rural Development and in the Ministry of Resource Development sections of this report that, in our view, there was inconsistent application of the criteria for accounting for grant expenses. Alberta Finance needs to provide guidance to ministries to ensure that the accounting for grants is in accordance with the PSAB accounting standard and is consistently applied.

### Conclusion

*Leadership from Alberta Finance is needed*

In conclusion, concerning corporate government accounting policies, Alberta Finance needs to take a leadership role in resolving the accounting issues which cause reservations in my auditor's reports on ministries' financial statements.

## Strategies to improve reporting throughout the year

Recommendation No. 46

**Strategies to improve reporting**

**We again recommend the Department of Finance promote the benefits of quality financial reporting throughout the fiscal year.**

We made a similar recommendation (2000—No. 44) last year.

*Little improvement noted in 2000-2001*

This is the fourth year that the ministries have been required to prepare financial statements. Some ministries continue to be unable to provide the Ministry of Finance and my Office with year-end information and assurances required on a timely basis. For example, the sign-off for the assurances required from six Deputy Ministers on their ministries financial statements were not received by the deadline at the end of May 2001. Also, the target of mid-July 2001 for the issuance of the auditor's report on ministries financial statements was not met for five ministries. In fact, for four ministries the auditor's report was not issued until near the end of August 2001. Quality reporting is a key element of good financial controllership. Further, good business decisions by management require quality and timely financial information throughout the year. In my view, further improvement concerning deadlines and the quality of the annual financial statements approved by the Senior Financial Officers and Deputy Ministers is absolutely required. I very strongly believe that such improvements are possible.

*Unnecessary time and effort still required*

At the year-end, there continues to be a significant volume of adjustments, estimated in the hundreds, requested and recorded during the year-end accounting process.

*Year-end closing seems to be an "add on" activity*

It still appears that financial information for year-end closing is an "add on" activity only relevant at year-end.

*Financial records need to be complete and accurate throughout the year*

Ministries need to apply good financial management practices and have sound systems and processes to ensure that their financial records are complete and accurate throughout the year. Instead, they tend to review and prepare significantly all of their annual year-end financial information subsequent to the year-end. Financial records should be closed off accurately and promptly for each reporting period throughout the year. Issues affecting financial reporting should be resolved throughout the year and not left until late in the fiscal year or after the year-end.

If the interim reporting process is really effective, then the fiscal year-end process will be accurate and timely.

*This endeavour may take some years to achieve*

This endeavour to improve financial reporting throughout the year may take some years to achieve. I noted in a recent issue of the Harvard Business Review that senior management of a large high-tech company estimated that it took them about five years to attain a level of achievement that they wanted. That level is now a daily close within hours, producing consolidated financial statements on the first workday following the end of any monthly, quarterly or annual reporting period.

*Alberta Finance needs to improve the timeliness of annual and quarterly public reporting*

Over a period of years, the government needs to improve the timeliness of reporting towards private sector best practices. For example, we suggest that Alberta Finance improve year-end reporting so that the public release of its annual financial and performance results is within four to six weeks after the fiscal year-end. Further, we suggest that Alberta Finance improve quarterly reporting so that the public release of its quarterly financial results is within four weeks after the quarter-end.

## 2000-01 Annual Report of the Government of Alberta

The 2000-01 Annual Report of the Government of Alberta is the report to Albertans that includes the Province's consolidated financial statements and Measuring Up performance results.

## Consolidated financial statements of the Province

*Province's financial statements in Government Annual Report*

The Province's consolidated financial statements are published in the Government of Alberta Annual Report. The notes to the consolidated financial statements explain the accounting policies and reporting practices applied.

*My report on the Province's 2000-01 consolidated financial statements is without reservation*

On June 20, 2001, I reported, without reservation, for the year ended March 31, 2001 on the Province's consolidated financial statements that are prepared on a disclosed basis of accounting. The disclosed basis of accounting in the government's consolidated financial statements focuses on the net assets, which is the model commonly used for financial reporting by governments in Canada. My auditor's report is reproduced on page 301 of this report.

*I also reported a lack of legislative authority for the Alberta Energy Tax Refund program*

However, I also reported that there was no legislative authority in existence by March 31, 2001 for the $345 million cost included in the financial statements for the Alberta Energy Tax Refund program. In November 2000, a Bill for the *Alberta Income Tax Amendment Act, 2000 (No. 2)* received first reading in the Legislative Assembly. The Bill proposed a tax refund of $150 for each individual who met certain eligibility requirements but because the Legislature was dissolved in February 2001, the Bill died on the Order Paper and thus could proceed no further. Most of the refunds were paid before March 31, 2001 despite the fact that, as of that date, there was no legislative authority for the program. The refunds were paid on behalf of the Province by the Canada Customs and Revenue Agency under an arrangement with Treasury Department. The program was eventually authorized by the enactment of *Alberta Income Tax Amendment Act, 2001* on May 31, 2001, two months after the year end, and was made retroactive to November 1, 2000.

## Earmarked assets

In the Annual Reports for 1998-1999 and 1999-2000, we recommended (2000—No. 45) that the Province's consolidated financial statements and the Ministry of Treasury financial statements provide expanded disclosure of assets set aside for particular purposes.

Expanded disclosure of earmarked assets has been provided in the notes to the financial statements of the Province and the Ministry of Treasury for the year ended March 31, 2001 and thus we consider our recommendation implemented.

## Measuring Up

### Auditor's report on the results of applying specified auditing procedures to performance information

*Specified auditing procedures were applied to the core measures in Measuring Up*

My staff applied the following specified auditing procedures to the core measures included in Measuring Up:

- Agreed information from an external organization, such as Statistics Canada, to reports from the organization.
- Agreed information from reports that originated within the Government of Alberta to source reports. In addition, we tested the procedures used to compile the underlying data into the source reports.
- Checked that the presentation of results is consistent with the methodology stated in Appendix I.
- Checked that the results presented are comparable to stated targets, and information presented in prior years.
- Checked that the core measures, as well as targets, agree to and include results for all of the measures presented in Budget 2000.

In addition, my staff agreed supplemental information to source reports and checked that the supporting narrative is consistent with the information.

*We found no exceptions*

As a result of applying the above procedures, we found no exceptions. These procedures, however, do not constitute an audit and therefore, I expressed no opinion on the core measures and supplemental information included in the Government of Alberta Annual Report for the year ended March 31, 2001.

### Results analysis

**Recommendation No. 47**

**Results analysis in Measuring Up**

**We again recommend the Department of Finance enhance the results analysis in Measuring Up.**

*We recommended that the background information and results analysis in Measuring Up be improved*

In last year's Annual Report, we recommended (2000—No. 46) the Department enhance the background information and results analysis included in Measuring Up. Background information and results analysis are integral components of a performance report and are necessary for a reader to understand and assess performance of an organization.

*Background information and results analysis help the reader understand and assess performance*

Background information provides the reader with an understanding of the purpose of the report, the relationship between goals and measures, and the reason for significant changes in measures. Results analysis should describe the degree to which performance targets were achieved, how strategies contributed to the actual results, and include a discussion of external influences that have a significant impact on results.

*The background information in Measuring Up has improved*

The background information in Measuring Up has improved. There is a better explanation of the purpose of the document and how it fits into the government accountability framework. More information is included on how the measures relate to the goals. In addition, significant changes in measures and the rationale for the changes are adequately discussed.

*Results analysis could be further improved by discussing how government strategies and external factors influence performance results*

Discussion of results achieved in relation to targets and prior year results has improved for most measures. However, there is insufficient discussion of how strategies of government and external influences contribute to actual results. A discussion of how strategies contribute to the achievement of results and the affect of external influences helps the reader to evaluate how well an organization has fulfilled its stewardship obligations and is useful in explaining the reasons for variances.

Measuring Up is a key performance report of the government. Expanding the results analysis will improve a reader's ability to understand and evaluate performance in relation to the business plan.

## Crown-controlled Organizations

*Identification of these organizations*

The financial statements of Alberta Insurance Council and Gainers Inc., the two Crown-controlled organizations are included in the Ministry of Treasury's Annual Report 2000-2001.

*Access to information*

Section 16 of the *Auditor General Act* provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization.

*All information needed by the Auditor General has been supplied*

All of the information that I required to properly fulfill my obligations concerning these organizations has been made available to me.

## Treasury Ministry and Department financial statements

*My report on the Ministry and Department financial statements is without reservation*

I conducted an audit of the financial statements of the Ministry and the Department of Treasury for the year ended March 31, 2001. My audit opinion on each of these financial statements was issued without reservation.

*I also reported a lack of legislative authority for the Alberta Energy Tax Refund program*

I also reported that there was no legislative authority by March 31, 2001 for the $345 million cost included the financial statements for the Alberta Energy Tax Refund program. The circumstances are explained on page 251 of this report in the section dealing with the Province's consolidated financial statements.

*I reported on specified auditing procedures*

In addition to the audit of the annual financial statements, I reported on the results of applying specified auditing procedures to the Ministry's key performance measures in the Treasury Annual Report 2000-2001.

---

## Foregone revenue—the need for accountability

**Recommendation No. 48**

**Accountability for foregone revenue**

**We again recommend the Department of Finance identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax system.**

We made a similar recommendation (2000—No. 47) last year.

*This recommendation was made last year*

In the 1999-2000 Annual Report (2000—page 275), we recommended the Department of Treasury identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax collection system.

*The recommendation was not accepted*

Alberta Treasury did not accept this recommendation. They stated that there are no common standards for reporting such programs within the tax collection system and different tax rates in jurisdictions make comparability difficult.

*Lack of comparability with other governments should not be the main focus of Alberta Finance*

In my view, the focus on comparability is not the prime consideration. Because different government jurisdictions in Canada may have different political philosophies and different philosophies about program delivery mechanisms, I recognized that comparability in this context might not be very useful. But what is really important is my concern that there be complete accountability and transparency to the Legislature and the Alberta public for Alberta government programs. Albertans have the right to know what the government spends and the results it gets.

*Government could improve disclosure*

I encourage the government to improve disclosure of the budgeted and actual cost of annual revenues foregone. I also believe that the objectives of and results achieved by these programs should be made known to the Legislative Assembly.

*Other governments provide information for legislative review*

Last year, I mentioned current practices in other North American governments and I provided a "best practices" example from the State of Oregon, which has a legislated requirement for a tax expenditures report. The report provides the following information:

- a list of expenditures
- the statutory authority for each
- the purpose for which each was enacted
- estimates of the revenue loss for the coming two years
- the revenue loss for the preceding two years
- a determination of whether each tax expenditure is the most fiscally effective means of achieving its purpose
- a determination of whether each tax expenditure has achieved its purpose, including an analysis of the recipients that benefit from the expenditure.

*The Alberta Legislative Assembly should assess these programs*

I continue to believe that the Legislative Assembly should specifically assess the need, objectives, performance targets and effectiveness of these programs. This would include identifying, in the government and in ministries business plans, the expected performance targets and the expected costs for these programs. Also, to complete the accountability cycle, results achieved and actual costs should be compared to those planned.

*Alberta budget document does not identify the revenue dollars foregone*

There presently exists in the annual Alberta Budget document some information that is useful to the Legislature and to Albertans. In Budget 2000 there is a section on "Alberta Tax Advantage" which discusses, among other things, the financial impacts of various tax measures being implemented. While this is useful, it does not identify the extent of revenue dollars foregone on tax expenditure programs designed to benefit particular segments of Alberta individuals or businesses. More importantly, it does not identify the non-financial impacts that are expected to be achieved.

*Many governments place high value on evaluation and reporting of tax expenditures*

Our extensive research on tax expenditure issues has disclosed that many governments in North America and other countries consider the ongoing evaluation and reporting of tax expenditures a very important component of government accountability. Among several reasons given by governments for their accountability for tax expenditures is this one from the 1999 Delaware Tax Preference Report, "A reduction in revenues has the same fiscal impact as a direct expenditure of equal magnitude...both consume finite public resources."

*A new tax expenditure program was introduced in 2000-01*

During the 2000-01 fiscal year, the government initiated the Alberta Energy Tax Refund program. In our opinion, this was a tax expenditure program. This is a $690 million program of payments to eligible Albertans amounting to $345 million in 2000-01 and about the same amount in 2001-02. While the amount of the program was made public, there has been no reporting of results expected or achieved.

## Forecasting corporate income tax revenue

In our 1999-2000 Annual Report, we recommended (2000—No. 48) the Department of Treasury improve its forecasting of corporate income tax revenue to facilitate more accurate reporting.

We can report that the Department has implemented procedures designed to provide improved forecasts of corporate income tax and thus we consider our recommendation implemented.

## Alberta Treasury Branches

### Overview

Alberta Treasury Branches (ATB) is an agent of the Crown with a mission "to provide personalized financial services to Albertans while earning a fair return." For the year ended March 31, 2001, ATB's net income of $161 million increased the year-end equity position from $273 million to $434 million. Since last year, loans net of allowances for credit losses grew from $8.9 billion to $9.5 billion while deposits grew from $9.9 billion to $10.9 billion.

ATB's 2001-2004 business plan focuses on the following critical success factors:

- Employing motivated, knowledgeable staff
- Improving productivity
- Achieving profitable growth
- Increasing customer access
- Prudently managing risk

*Maintaining standardized accounting and control processes can be difficult where operations are decentralized*

The nature of ATB's business requires complex accounting and internal control systems. ATB has a network of branches and service departments dispersed across the Province. This results in the decentralization of authority, and the distribution of accounting and internal control functions. Consequently, maintaining standardized accounting practices and control processes is challenging.

*My staff evaluated ATB's financial systems and internal controls*

Effective internal controls reduce operational risk. Management has a responsibility to design systems with appropriate controls and to ensure these controls are functioning as intended. The Internal Audit Department has a responsibility to test and report on the effectiveness of these controls. Once again this year, as part of the annual financial statement audit, my staff evaluated ATB's financial systems and internal controls.

*My staff evaluated ATB's new loan loss allowance methodology*

In addition to managing operational risk, ATB must also effectively manage credit risk. This involves understanding and evaluating the potential loss exposure in the loan portfolio. In order to improve management's ability to determine this exposure as reflected in the loan loss allowances, ATB developed a new general loan loss allowance methodology during the year. As part of the financial statement audit, an evaluation of the reasonableness of this new methodology's results was performed. We focused on assessing the model's underlying logic, the sufficiency of the available empirical evidence supporting the model, and also on the results of testing performed by management on the model.

## Scope of work

In addition to the annual financial statement audit, the following work was completed:

- Review engagements for each of ATB's quarterly financial statements
- Audit of ATB's Management Pension Plan for the year ended December 31, 2000
- Audit of ATB Investment Services Inc., a subsidiary of ATB, for the year ended March 31, 2001

- Audit of ATB Investment Services Inc.'s compliance with applicable sections of National Instrument 81-102 as required by the Alberta Securities Commission
- Audit of the Annual Administration Fee Schedules for Small Business Loans as required by the Federal Government

## Strengthening internal controls

Recommendation No. 49

**Strengthening internal controls**

**We again recommend internal controls be improved and that all internal controls be documented, evaluated and monitored by management to ensure assets are properly protected and that financial information is accurate and complete.**

*Progress has been made to document certain controls and to ensure adequate division duties exists*

In the 1999-2000 Report, we recommended (2000—No. 49) that ATB strengthen the internal controls within its financial systems by ensuring account reconciliations are performed regularly, adequate division of duties exists at the branches and useful systems documentation is maintained. I am pleased to report that progress has been made in these particular areas. Management has documented the reconciliation controls supporting cheque clearing, and processes have been implemented to ensure these reconciliations are completed on time. Changes have also been made at the branches to ensure employees are not assigned incompatible duties and that they do not share computer terminals. Notwithstanding this progress, I am repeating this recommendation because of the extent of work that is still required.

*Further work is necessary to ensure controls are effective throughout the business*

We observed further instances where internal controls across the business were either ineffective or non-existent. For example, weak monitoring controls did not detect a fraud that cost ATB approximately $600,000, poor authentication controls permitted employee expenses to be reimbursed without adequate support, and controls were not in place to ensure borrower's risk-ratings were being accurately reflected in ATB's loan system. In these cases, management has taken corrective action to implement proper controls. However, further work is necessary to confirm the existence and effectiveness of all controls needed to support ATB's main business processes.

*Management needs a clearly defined control environment*

To help ATB management properly evaluate and monitor internal controls throughout the business, the documentation should contain detail describing the information flowing through the systems, the processing occurring within the applications and the controls that exist to support this processing. A clearly defined control environment should also be documented to assign responsibilities for processes, systems and controls to ensure regular monitoring of controls will occur.

*Efforts continue to ensure adequate controls exist*

ATB management recognizes the need to continue to ensure that all controls are functioning effectively. Several committees have been formed to continue to document the business processes and analyze the controls behind the higher-risk accounts. We will continue to monitor the progress made in this area.

## Internal Audit Department responsibilities

**Recommendation No. 50**

**Internal Audit Department**

**We recommend internal controls be subject to periodic independent review by the Internal Audit Department to confirm their existence and to verify their effectiveness.**

*Internal Audit should test controls at ATB*

The Internal Audit Department has a responsibility to test the existence and effectiveness of internal controls, to make recommendations for improvement and then to provide assurance to management and the Board that the controls are working effectively. Effective Board governance of a financial institution includes obtaining assurance that there has been an independent assessment of controls, usually by internal audit.

*Internal Audit does not provide assurance to the Board that controls are working effectively at ATB*

Currently, however, Internal Audit does not provide such assurance to the Board of ATB. This is mainly because many controls are not working effectively and also because Internal Audit is unable to demonstrate that all key controls established by management have been included in their testing.

*Some processes and controls are not subject to regular audit*

We observed some core processes and key controls that were not subject to regular testing. For example, Internal Audit has not audited head office processes such as payroll and purchasing for four years. Ideally, these areas should be tested more frequently to ensure controls are operational. Even a brief visit by Internal Audit can strengthen controls by reinforcing their importance to management of that area.

*More extensive testing of controls is planned*

The Internal Audit Department plans to conduct more extensive reviews of internal controls. We will continue to monitor their progress.

## Determination of the general loan loss allowance

### General loan loss allowance

**We recommend ATB provide further support for the subjective components of the general loan loss allowance and that further testing be conducted to assess the reliability of the methodology.**

*ATB developed a new general allowance methodology during the year*

In the 1999-2000 Report we recommended (2000—page 282) that ATB re-evaluate the methodologies and assumptions used to calculate the general loan loss allowance. During the year, ATB developed a new methodology for the determination of the general allowance. We commend ATB for the proposed direction of the new methodology, which is generally sound and in many areas is comparable with the process being adopted by several major financial institutions in Canada. However, the methodology requires further refinement and testing to improve its usefulness as economic conditions change.

*A loan loss allowance is established to determine the net realizable value of ATB's loan portfolio*

In order to determine the net realizable value of ATB's loan portfolio, management establishes a loan loss allowance, which is determined in two parts. The first is the specific allowance totalling $93 million at March 31, 2001. This amount is derived from an analysis of individual loans that have already shown evidence of impairment. The second is the general allowance, which unlike the specific allowance, cannot be linked to individual loans. The concept is that impairment in the loan portfolio already exists although it cannot yet be specifically identified on a loan-by-loan basis, particularly in a strong economy. At March 31, 2001, the general allowance was $124 million.

*The new model allows for a high degree of management judgement*

The new model requires a high degree of management judgement. For example, for the current year, the model computes expected loan losses of around $40 million based on ATB's risk-rating systems. Then, an additional $84 million is added by way of data, model and economic cycle adjustments that have been derived with little empirical support. Since these individual components can materially impact ATB's loan balances, it is essential that they be supported by historical and quantitative data, as well as qualitative analysis.

*Management should perform rigorous testing and analysis of the model's results*

Because ATB's risk-rating systems have only been in place for the last three to four years, detail regarding actual default rates and loss experiences for each category of risk-rated loans, throughout the various stages of an economic cycle, are not available. Therefore, management has not been able to rigorously test the model's ability to calculate the general loan loss allowance at different stages of the economy.

*ATB will collect more data to support assumptions and to evaluate the model*

As time progresses, ATB will be able to collect more detail on default and loss rates. Such information should then be used to support the assumptions made by management and to critically evaluate the reasonableness of the model to ensure the results are reliable.

## Provincial Trust Funds

The Province administers public money over which the Province has no power of appropriation and which is therefore not included in the Province's consolidated financial statements. At March 31, 2001, trust funds under administration amounted to $22.9 billion. Summarized information about the funds making up this amount is provided in Note 8 to the Province's consolidated financial statements.

## Other entities

### Financial audits

**Year ended March 31, 2001**

Alberta Heritage Foundation for Medical Research Endowment Fund
Alberta Heritage Savings Trust Fund
Alberta Heritage Scholarship Fund
Alberta Heritage Science and Engineering Research Endowment Fund
Alberta Risk Management Fund
Alberta Securities Commission
ARCA Investments Inc.
Consolidated Cash Investment Trust Fund
N.A. Properties (1994) Ltd.
Supplementary Retirement Plan Reserve Fund

**Year ended December 31, 2000**

Alberta Municipal Financing Corporation
Alberta Pensions Administration Corporation
Credit Union Deposit Guarantee Corporation
Orion Properties Ltd.
S C Financial Ltd.
The Alberta Government Telephones Commission

## Pension related audits

**Year ended March 31, 2001**

Provincial Judges and Masters in Chambers Pension Plan Fund

**Year ended December 31, 2000**

Local Authorities Pension Plan
Management Employees Pension Plan
Public Service Management (Closed Membership) Pension Plan
Public Service Pension Plan
Special Forces Pension Plan
Supplementary Retirement Plan for Public Service Managers
Universities Academic Pension Plan

# Section 12(b) Audits

Pursuant to section 12(b) of the *Auditor General Act*, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 2000-2001 fiscal year, the Auditor General acted as auditor of the following organizations:

- Alberta Centre for International Education
- Alberta Hospital Edmonton Foundation
- Calgary Regional Health Authority
- Carewest
- Capital Health Authority
- Chinook Regional Health Authority
- East Central Regional Health Authority
- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Headwaters Health Authority
- Keeweetinok Lakes Regional Health Authority
- Lakeland Regional Health Authority
- Northern Lights Regional Health Authority
- Olds College Foundation
- Peace Regional Health Authority
- PENCE Inc.
- Regional Health Authority 5
- WestView Regional Health Authority

| | Total Numbered Recommendations | Accepted and Fully Implemented | | Not Implemented Due to changed Circumstance | | Not Yet Implemented | |
|---|---|---|---|---|---|---|---|
| | | Number | % | Number | % | Number | % |
| **1994-1995** | 38 | 32 | 84% | 1 | 3% | 5 | 13% |
| **1995-1996** | 35 | 29 | 83% | 2 | 6% | 4 | 11% |
| **1996-1997** | 28 | 20 | 71% | 0 | 0% | 8 | 29% |
| **1997-1998** | 51 | 33 | 65% | 0 | 0% | 18 | 35% |
| **1998-1999** | 50 | 21 | 42% | 1 | 2% | 28 | 56% |
| **1999-2000** | 49 | 10 | 20% | 0 | 0% | 39 | 80% |

| **Status of numbered recommendations made prior to 2000-2001** | **1994-1995** | **1995-1996** | **1996-1997** | **1997-1998** | **1998-1999** | **1999-2000** | **2000-2001** |
|---|---|---|---|---|---|---|---|
| | **Recommendation Numbers** | | | | | | |
| New recommendations made in 1994-1995 | | | | | | | |
| Progress satisfactory | 4 | | | 6 | 3 | 3 | |
| Implemented | 5 | | | | | | |
| Implemented | 7 | | | | | | |
| Progress satisfactory | 9 | | | | | | |
| Repeated | 11 | | 8 | | 20 | | 4 |
| Implemented | 16 | | | | 24 | | |
| Repeated | 23 | 20,21 | 18 | 32 | 41 | | 16,17 |
| Repeated | 28 | | | | 45 | 30 | 29 |
| New recommendations made in 1995-1996 | | | | | | | |
| Progress satisfactory | | 6 | | | | | |
| Implemented | | 12 | | | | | |
| Implemented | | 13 | | 33 | | | Page 179 |
| Implemented | | 17 | | 30 | 43 | 22 | Page 127 |
| Implemented | | 22 | | | | | |
| Repeated | | 36 | | | | 49 | 49 |
| New recommendations made in 1996-1997 | | | | | | | |
| Repeated | | | 6 | 11 | 13 | 31 | 31 |
| Implemented | | | 7 | | | | |
| Progress satisfactory | | | 15 | | | 17 | |
| Implemented | | | 16 | | | | |
| Progress satisfactory | | | 17 | | 42 | | |
| Progress satisfactory | | | 20 | | | Page 134 | |
| Repeated | | | 21 | | | 19 | 14 |
| Repeated | | | 25 | 41 | 47 | 42 | 45 |

| Status of numbered recommendations made prior to 2000-2001 | 1994-1995 | 1995-1996 | 1996-1997 | 1997-1998 | 1998-1999 | 1999-2000 | 2000-2001 |
|---|---|---|---|---|---|---|---|
| | Recommendations | | | | | | |
| New recommendations made in 1997-1998 | | | | | | | |
| Progress satisfactory | | | | 1 | | | |
| Progress satisfactory | | | | 2 | | | |
| Progress satisfactory | | | | 5 | | | |
| Implemented | | | | 9 | | | |
| Repeated | | | | 10 | 12 | 33 | 36 |
| Repeated | | | | 19 | 23 | Page 213 | 32 |
| Progress satisfactory | | | | 20 | | | |
| Repeated | | | | 23 | | | 7 |
| Repeated | | | | 24 | 34 | 11 | 6 |
| Progress satisfactory | | | | 26 | 36 | 18 | |
| Repeated | | | | 27 | | 21 | 14 |
| Repeated | | | | 28 | | | 15 |
| Progress satisfactory | | | | 34 | | | |
| Implemented | | | | 35 | | | |
| Implemented | | | | 36 | | | |
| Implemented | | | | 38 | | | |
| Implemented | | | | 42 | 48 | 43 | |
| Repeated | | | | 43 | Page 268 | 44 | 46 |
| Progress satisfactory | | | | 47 | | | |
| Implemented | | | | 48 | | | |
| Implemented | | | | 49 | | | |
| Implemented | | | | 50 | | | |
| Implemented | | | | 51 | | | |
| New recommendations made in 1998-1999 | | | | | | | |
| Progress satisfactory | | | | | 1 | | |
| Progress satisfactory | | | | | 4 | | |
| Progress satisfactory | | | | | 8 | | |
| Implemented | | | | | 9 | | |
| Repeated | | | | | 10 | | 2 |
| Repeated | | | | | 11 | Page 222 | 34 |
| Progress satisfactory | | | | | 14 | | |
| Progress satisfactory | | | | | 17 | | |
| Progress satisfactory | | | | | 21 | | |
| Progress unsatisfactory | | | | | 22 | Page 212 | Page 196 |
| Implemented | | | | | 25 | | |
| Implemented | | | | | 26 | | |
| Progress satisfactory | | | | | 27 | | |
| Not implemented due to changed | | | | | 28 | | Page 89 |
| Implemented | | | | | 29 | | |
| Repeated | | | | | 30 | | 8 |
| Progress unsatisfactory | | | | | 31 | 7 | Page 45 |
| Implemented | | | | | 35 | | |
| Repeated | | | | | 37 | | 14 |
| Repeated | | | | | 38 | | 15 |

| **Status of numbered recommendations made prior to 2000-2001** | **1994-1995** | **1995-1996** | **1996-1997** | **1997-1998** | **1998-1999** | **1999-2000** | **2000-2001** |
|---|---|---|---|---|---|---|---|
| **Recommendations** | | | | | | | |
| Progress satisfactory | | | | | 39 | | |
| Progress satisfactory | | | | | 40 | | |
| Progress satisfactory | | | | | 44 | | |
| New recommendations made in 1999-2000 | | | | | | | |
| Implemented | | | | | | 1 | |
| Progress satisfactory | | | | | | 2 | |
| Progress satisfactory | | | | | | 4 | |
| Progress satisfactory | | | | | | 5 | |
| Progress satisfactory | | | | | | 6 | |
| Progress satisfactory | | | | | | 8 | |
| Repeated | | | | | | 9 | 5 |
| Progress satisfactory | | | | | | 10 | |
| Implemented | | | | | | 12 | |
| Progress satisfactory | | | | | | 13 | |
| Implemented | | | | | | 14 | |
| Progress satisfactory | | | | | | 15 | |
| Progress satisfactory | | | | | | 16 | |
| Repeated | | | | | | 20 | 14 |
| Repeated | | | | | | 23 | 19 |
| Repeated | | | | | | 24 | 22 |
| Implemented | | | | | | 25 | |
| Progress satisfactory | | | | | | 26 | |
| Progress satisfactory | | | | | | 27 | |
| Repeated | | | | | | 28 | 26 |
| Progress satisfactory | | | | | | 29 | |
| Implemented | | | | | | 32 | |
| Implemented | | | | | | 34 | |
| Repeated | | | | | | 35 | 37 |
| Repeated | | | | | | 36 | Page 212 |
| Repeated | | | | | | 37 | Page 212 |
| Progress satisfactory | | | | | | 38 | |
| Repeated | | | | | | 39 | 9 |
| Progress satisfactory | | | | | | 40 | |
| Progress satisfactory | | | | | | 41 | |
| Implemented | | | | | | 45 | |
| Repeated | | | | | | 46 | 47 |
| Repeated | | | | | | 47 | 48 |
| Implemented | | | | | | 48 | |

# Unimplemented numbered recommendations made prior to 2000-2001 (current status)

## 1994-1995

**1995 Recommendation No. 4 – Outputs *(progress satisfactory)***

It is recommended that plans, annual reports and financial statements provide information on outputs. It is further recommended that plans and reports provided by organizations to their ministers identify the outputs to be produced and the expected full cost of the outputs. These plans should show the contribution the organization will make to ministry and government goals.

**1995 Recommendation No. 5 – Full Costing *(implemented)***

It is recommended that the Province develop systems to allocate all costs that are material, including a cost of capital employed, to organizations responsible for delivering outputs

**1995 Recommendation No. 7 - Accounting for results *(implemented)***

It is recommended that the Department of Advanced Education and Career Development continue to work with post-secondary educational institutions to develop a system which links educational outputs and costs to expected effects.

**1995 Recommendation No. 9 - Sponsored research activities *(progress satisfactory)***

It is recommended that The University of Alberta improve its measuring and reporting of sponsored research activities.

**1995 Recommendation No. 11 - Safety net criteria *(repeated)***

It is recommended that the Department of Agriculture, Food and Rural Development use the criteria developed for the whole farm safety net program to assess the appropriateness and effects of other farm income support programs.

**1995 Recommendation No. 16 - Special needs program expenditures *(implemented)***

It is recommended that the Department of Education require school boards to provide information which relates special needs program expenditures to services delivered and the number of students served.

**1995 Recommendation No. 23 – Funding systems *(repeated)***

It is recommended that the Department of Health foster funding systems that focus on enhancing the health of the population.

**1995 Recommendation No. 28 – Performance reporting *(repeated)***

It is recommended that the Department of Justice determine the costs and results of its fines collection activities to provide this information to the Legislative Assembly, the Provincial Court of Alberta, and municipalities.

## 1995-1996

**1996 Recommendation No. 6 - Extension Services *(progress satisfactory)***

It is recommended that the Northern Alberta Institute of Technology include the setting of measurable expectations as part of the planning for Extension Services activities, so that achievements can be properly assessed.

**1996 Recommendation No. 12 - Supports for Independence - supplement to earnings and related assistance *(implemented)***

It is recommended that the Department of Family and Social Services review the status of clients whose earnings are being supplemented or who are receiving support while they are seeking employment or receiving training, to determine whether appropriate assistance is being provided to help them become financially independent.

**1996 Recommendation No. 13 - Longer-term planning *(implemented)***

It is recommended that the Metis Settlements Transition Commissioner encourage Metis settlement councils to develop business plans setting out longer-term operating strategies and financial forecasts, thereby enabling the Commissioner, settlement councils and settlement members to guide each settlement's progress towards self-sufficiency as envisaged by the *Metis Settlements Accord Implementation Act*.

**1996 Recommendation No. 17 - Development of information systems *(implemented)***

It is recommended that the Department of Health in collaboration with health authorities establish a process that will guide the development of information systems capable of providing the information necessary to assess the effectiveness of publicly funded health services.

**1996 Recommendation No. 20 - Physician funding systems *(repeated)***

It is recommended that the Department of Health foster the implementation of physician funding systems that focus on enhancing the health of the population.

**1996 Recommendation No. 21 - Fee for Service Rates *(repeated)***

It is recommended that the Department of Health assess whether the fee for service rates set in the Schedule of Medical Benefits represent reasonable compensation for medical services provided within the current medical practice environment.

**1996 Recommendation No. 22 - Health services provided by community, voluntary and private organizations *(implemented)***

It is recommended that the Department of Health and the Regional Health Authorities work toward ensuring optimum use of significant public funds provided to community, voluntary and private organizations for the purpose of delivering regional health services.

**1996 Recommendation No. 36 – Computer system enhancements *(repeated)***

It is recommended that Alberta Treasury Branches automate, and make more reliable and comprehensive, the reporting of information on connected accounts, classified advances, letters of guarantee, and letters of credit.

## 1996-1997

**1997 Recommendation No. 6 - Reporting capital requirements *(repeated)***

It is recommended the Department of Advanced Education and Career Development obtain information regarding the institutions' long-range funding requirements for capital assets to facilitate the Department's assessment of the financial position of institutions and the advanced education sector.

**1997 Recommendation No. 7 - Performance measures for the Skills Development Program *(implemented)***

It is recommended that the Department of Advanced Education and Career Development clarify the goal of the Skills Development Program with its delivery partners and set output and outcome targets to facilitate performance measurement of the Program.

**1997 Recommendation No. 8 - Farm Income Disaster Program - Evaluation criteria *(repeated)***

It is recommended that the Agriculture Financial Services Corporation, together with the Department of Agriculture, Food and Rural Development, develop measurable evaluation criteria that can be used to determine and report on the effects of the Farm Income Disaster Program.

**1997 Recommendation No. 15 - Accountability in the Health system** ***(progress satisfactory)***

It is recommended that the Department of Health ensure accountability is established for all organizations in the health care system who have a significant impact on costs and results. Key performance measurements should be set in relation to agreed performance expectations and accountability for major components of health care costs should be defined.

**1997 Recommendation No. 16 - Governance by Health Authorities** ***(implemented)***

It is recommended that the Department of Health work with health authorities to implement reporting on the performance of governance by health boards.

**1997 Recommendation No. 17 - Clinical Best Practice Guidelines** ***(progress satisfactory)***

It is recommended that the Department of Health, in collaboration with other stakeholders, establish priorities for the issuance of clinical best practice guidelines and report on the benefits achieved from the spending of public money to develop guidelines.

**1997 Recommendation No. 18 - Physician Funding and Payment systems** ***(repeated)***

It is recommended that the Department of Health develop a new process to address risks and opportunities within the physician funding and fee-for-service payment systems in cooperation with the Alberta Medical Association and regional health authorities.

**1997 Recommendation No. 20 - Reporting of performance by RHAs** ***(progress satisfactory)***

It is recommended that the Department of Health encourage health authorities and boards to improve the reporting of performance in annual reports in terms of measuring results and linking them to performance expectations that have been established in business plans.

**1997 Recommendation No. 21 - Improving financial statement reporting** ***(repeated)***

It is recommended that the Department of Health advance financial reporting in cooperation with regional health authorities and Provincial health boards by having financial statements include measurements of key results and the associated cost of achieving them.

**1997 Recommendation No. 25 - Basis of accounting for ministry and departmental financial statements** ***(repeated)***

It is recommended that departmental and ministry financial statements be prepared in accordance with generally accepted accounting principles.

## 1997-1998

**1998 Recommendation No. 1 - Three-year business plans** ***(progress satisfactory)***

It is recommended that in each year's planning, a greater emphasis be placed on creating the third year of the government and Ministry business plans.

**1998 Recommendation No. 2 - Longer-term view** ***(progress satisfactory)***

It is recommended that ministries provide a longer-term context for business planning by setting and communicating longer-term strategies. It is further recommended that ministries share proposed business plans amongst one another early in the planning process.

**1998 Recommendation No. 5 - Forecast information on key factors** ***(progress satisfactory)***

It is recommended that ministry business plans include forecast information on factors which could significantly impact the successful implementation of their business plans.

**1998 Recommendation No. 6 - Guidance on content of business plans** ***(progress satisfactory)***

It is recommended that all ministry business plans provide information on a common set of components and that the plan's financial information be presented in a form similar to the rest of the plan.

**1998 Recommendation No. 9 - Institutional business plans *(implemented)***

It is recommended that the Department of Advanced Education and Career Development, working with post-secondary institutions, develop strategies to ensure that institution business plans will contain the planning information necessary to meet the needs of the institutions and the Department.

**1998 Recommendation No. 10 - Maintaining sector infrastructure *(repeated)***

It is recommended that the Department of Advanced Education and Career Development and the post-secondary institutions improve the system to manage the infrastructure by evaluating the risks relating to the unfunded deferred maintenance.

**1998 Recommendation No. 11 - Long-term Capital Budgeting System for Institutional Infrastructure *(repeated)***

It is recommended that the Department of Advanced Education and Career Development, working with the post-secondary institutions, develop a long-range capital planning system for post-secondary institutional infrastructure.

**1998 Recommendation No. 19 - Charter School Accountability *(repeated)***

It is again recommended that the Department of Education ensure that each charter school's business plan identifies mandate-related performance measures, together with targets and strategies, that will be used to demonstrate the improved results occurring from innovative learning practices. It is also recommended that the business plan contain the criteria against which the renewal of the charter will be evaluated.

**1998 Recommendation No. 20 - School Generated Funds *(progress satisfactory)***

It is recommended that the Department of Education work with school jurisdictions to provide guidance on systems of internal control over the collection and expenditure of School Generated Funds.

**1998 Recommendation No. 23 - Integrated Resource Management performance measurement *(repeated)***

It is recommended that performance measures be identified to assess the contribution of Integrated Resource Management to the Province's resource management business. It is also recommended that a specific management group be designated responsible for directing, monitoring, and reporting the progress of the IRM initiative in government.

**1998 Recommendation No. 24 - Services to Children and Families – Accountability *(repeated)***

It is recommended that the Department of Family and Social Services require Child and Family Services Authorities to submit business plans that will achieve effective accountability.

**1998 Recommendation No. 26 - Timeliness of business plans *(progress satisfactory)***

It is recommended that the Department of Health and health authorities implement a joint strategy for improving the timeliness of business plans.

**1998 Recommendation No. 27 - Population-based funding *(repeated)***

It is recommended that the Department of Health:

- improve the quality and timeliness of the information used in the population-based funding formula;
- improve the consistency and predictability of the formula;
- analyze reasons for utilization and cost differences between regions;
- review the continuing application of the no-loss provision, and
- develop better methods of forecasting funding requirements.

**1998 Recommendation No. 28 - Establishing an appropriate capital infrastructure *(repeated)***

It is recommended that the Department of Health provide guidance for establishing an appropriate and equitable building and equipment base for each regional health authority. It is further recommended that the Department work with regional health authorities to improve systems for planning and funding capital assets.

**1998 Recommendation No. 30 - Development of information systems - The we//net initiative *(implemented)***

It is recommended that the Department of Health ensure that management processes maximize the prospect of meeting expectations and keeping the cost of a Province-wide information network affordable.

**1998 Recommendation No. 32 - Physician funding *(repeated)***

It is recommended that the Department of Health monitor the implementation of the new agreement with physicians and report annually on results achieved.

**1998 Recommendation No. 33 - Business planning process *(implemented)***

It is recommended that the Metis Settlement Transition Commission further develop the business planning process to help ensure significant expectations are clearly identified and that achievement is measured.

**1998 Recommendation No. 34 - Measuring performance *(progress satisfactory)***

It is recommended that the Department of Justice in collaboration with policing services set measurable performance objectives for service delivery in the Province.

**1998 Recommendation No. 35 - Monitoring the Performance of Delegated Entities *(implemented)***

It is recommended that the Department of Labour continue to improve its processes for monitoring the performance of delegated entities based on an assessment of risks.

**1998 Recommendation No. 36 - In-service Inspection Backlog – Pressure Equipment *(implemented)***

It is recommended that the Department of Labour, in conjunction with the Alberta Boilers Safety Association, develop a comprehensive plan for eliminating the backlog of in-service inspections of pressure equipment.

**1998 Recommendation No. 38 - Performance Measures *(implemented)***

It is recommended that the Ministry of Public Works, Supply and Services improve its reporting of performance measures to better demonstrate its cost-effectiveness.

**1998 Recommendation No. 41 - Reservations in auditor's reports *(repeated)***

It is recommended that the Treasury Department management initiate changes to the corporate government accounting policies in order to eliminate the reservations in auditor's reports on department and ministry financial statements.

**1998 Recommendation No. 42 - Allocation of significant costs *(implemented)***

It is recommended that the Department of Treasury develop a methodology to allocate all significant costs to the entities responsible for delivering outputs.

**1998 Recommendation No. 43 - Strategies to improve year-end reporting *(repeated)***

It is recommended that the Department of Treasury develop strategies to improve year-end reporting processes for ministries and their agencies.

**1998 Recommendation No. 47 - Application of the *Freedom of Information and Protection of Privacy Act* *(progress satisfactory)***

In order to protect the personal information of Albertans from inappropriate disclosure and consequent misuse, it is recommended that the Minister responsible for Alberta Registries consider the advisability of making personal information in the Office of the Registrar of Motor Vehicles Services fully subject to Part 2 of the *Freedom of Information and Protection of Privacy Act*.

Alternatively, it is recommended that Alberta Registries consider adopting fair information practices that are equivalent to the *Freedom of Information and Protection of Privacy Act* with respect to the use, disclosure and protection of personal information in the Motor Vehicles Registry.

**1998 Recommendation No. 48 - Training Private Registry Agents *(implemented)***

It is recommended that Alberta Registries educate and train private registry agents on the *Freedom of Information and Protection of Privacy Act* and its implications to registry services delivery.

**1998 Recommendation No. 49 - Computer Services Performed by a Service Bureau** ***(implemented)***

It is recommended that Alberta Registries obtain annually a letter of representation in a form acceptable to Alberta Registries, confirming that the control procedures relevant to the performance of services for Registries have been established and are operating effectively in all areas affecting the security and integrity of information processed and maintained by the service bureau responsible for the computer systems at Alberta Registries.

It is further recommended that:

- the letter of representation be supported by a report by an external auditor of the service bureau on control procedures in a form and to a standard provided for by The Canadian Institute of Chartered Accountants.
- any control deficiencies identified by Alberta Registries, or by an external auditor, be made the subject of quarterly reports by the service bureau to Alberta Registries which detail the progress made towards correcting the deficiencies.

**1998 Recommendation No. 50 - Motor Vehicles and Driver Licensing Information Systems** ***(implemented)***

It is recommended that Alberta Registries ensure that the service bureau responsible for the operation of the Motor Vehicles and Driver Licensing Information Systems addresses the deficiencies in control procedures relating to the Information Systems identified during the joint audit and reports quarterly to Alberta Registries on the progress made towards correcting these deficiencies.

**1998 Recommendation No. 51 - Monitoring Private Registry Agents** ***(implemented)***

It is recommended that Alberta Registries strengthen its policy and procedures for monitoring the activities and performance of private registry agents, and ensure that monitoring resources are allocated based on the risk that registry agents will not provide registry services in accordance with the registry agent agreement.

## 1998-1999

**1999 Page 268 - Strategies to improve year-end reporting** ***(repeated)***

It is recommended that the Department of Treasury continue to refine strategies to improve year-end reporting processes, including methods to advance the timing of year-end reporting.

**1999 Recommendation No. 1 - Guidance on best practices** ***(progress satisfactory)***

It is recommended that Ministries collaborate with Treasury to articulate best practices in business planning.

**1999 Recommendation No. 3 - Financial implications of business plans** ***(progress satisfactory)***

It is recommended that Ministries, together with Treasury, develop a strategy to combine Ministry core businesses and programs so that Ministry income statements clearly present the cost of implementing core businesses.

**1999 Recommendation No. 4 - Performance measures in business plans** ***(progress satisfactory)***

It is recommended that Ministries, in conjunction with Treasury, develop a strategy to improve the quality of performance measures in business plans.

**1999 Recommendation No. 8 - Employee performance management systems to support organizational goals** ***(progress satisfactory)***

It is recommended that each Deputy Minister, in conjunction with PAO, ensure that employee performance management systems clearly support the achievement of government and department objectives.

**1999 Recommendation No. 9 - Governance Principles for Agencies, Boards and Commissions** ***(implemented)***

It is recommended that the Deputy Minister of Executive Council work with other Ministries to set out governance principles for all agencies, boards and commissions.

**1999 Recommendation No. 10 - Guidelines for Shared Services Arrangements *(repeated)***

It is recommended that the Deputy Minister responsible for the shared services initiative develop guidelines for shared services that mitigate identified risks and provide for the assessment of the cost effectiveness of each arrangement.

**1999 Recommendation No. 11 - KPI Reliability *(repeated)***

It is recommended that the Department of Learning work with the public post-secondary education institutions to improve the reliability of KPIs for credit full load equivalent student, graduate employment rate and graduate satisfaction.

**1999 Recommendation No. 12 - Deferred Maintenance *(repeated)***

It is recommended that the Department of Learning and the public post-secondary education institutions continue to improve the system to manage the infrastructure by evaluating the overall progress made towards addressing the critical health and safety risks relating to deferred maintenance.

**1999 Recommendation No. 13 - Long Term Capital Planning *(repeated)***

It is recommended that the Department of Learning, working with the public post-secondary education institutions, continue to develop a long-range capital planning system for Ministry infrastructure.

**1999 Recommendation No. 14 - Conditional grant processes *(progress satisfactory)***

It is recommended that the Department of Learning improve the processes used to collect and verify conditional grant information from the public post-secondary education institutions to facilitate the monitoring and evaluation of each conditional grant program.

**1999 Recommendation No. 17 - Balanced budgeting *(progress satisfactory)***

It is recommended that the University of Calgary review its budgeting process to determine whether its current definition of a balanced budget is adequate to ensure programs and facilities are supported and will continue to be supported.

**1999 Recommendation No. 20 - Performance evaluation *(repeated)***

It is recommended that the Department of Agriculture, Food and Rural Development evaluate the performance of the Farm Income Disaster Program on a regular basis, and at least annually.

**1999 Recommendation No. 21 - Use of official receipts for income tax purposes *(progress satisfactory)***

It is recommended that the Alberta Sport, Recreation, Parks and Wildlife Foundation comply with the *Income Tax Act* (Canada) when issuing official receipts for income tax purposes.

**1999 Recommendation No. 22 - Departmental monitoring and evaluation *(progress unsatisfactory)***

It is recommended that the Department of Learning conduct a comprehensive review of all significant legislative, business and financial risks to improve the effectiveness of its monitoring of school jurisdictions.

**1999 Recommendation No. 23 - Charter School Accountability *(repeated)***

It is recommended that the Department of Learning ensure that each charter school's charter contain measurable outcomes so that there is a base from which to measure and evaluate the charter school's results against its mandate.

**1999 Recommendation No. 24 - Financial Reporting *(implemented)***

It is again recommended that the Department of Learning work with school jurisdictions to improve the accuracy of the financial reporting of special needs expenses by school jurisdictions.

**1999 Recommendation No. 25 - Local Target Setting *(implemented)***

It is recommended that the Department of Learning work with school jurisdictions to ensure that school jurisdictions set local targets for academic achievement on Provincially administered examinations that strive for improved academic results.

**1999 Recommendation No. 26 - Strategic information systems plan *(implemented)***

It is recommended that, once the scope of the Volumetric Infrastructure Petroleum Information Registry project is determined, the Alberta Energy and Utilities Board develop a strategic information systems plan to support the business needs now served by its well and production systems.

**1999 Recommendation No. 27 - Budgeting annual fire fighting costs** ***(progress satisfactory)***

It is recommended that the Department of Environment budget for the expected annual fire fighting costs based on the most current information. Further, it is recommended that the fire fighting budget be subject to legislative approval, including approval for any supplemental estimates required during the year.

**1999 Recommendation No. 28 - Consistency in regional plans and operations** ***(not implemented due to changed circumstances)***

It is recommended that the Land and Forest Service of the Department of Environment ensure that its strategies, goals, and processes are effectively implemented through regional business plans and operations.

**1999 Recommendation No. 29 - Contract management** ***(implemented)***

It is recommended that the Land and Forest Service of the Department of Environment refine its contract management processes.

**1999 Recommendation No. 30 - Financial Security Risk Assessment Model** ***(repeated)***

It is recommended that the Financial Security Risk Assessment Model be implemented and that the Department of Environment ensure that it has the resources to assess the documentation that governs the calculation of the security.

**1999 Recommendation No. 31 - Shared services for community based programs** ***(progress unsatisfactory)***

It is recommended that the Department of Human Resources and Employment prepare a plan and agreement for the delivery of shared services for community boards and children's authorities which will support the management of their operations.

**1999 Recommendation No. 34 - Business Planning** ***(repeated)***

It is recommended that the Department of Children's Services require the business plans of Child and Family Services Authorities (CFSAs) to incorporate relevant measures and strategies to improve the overall accountability and effectiveness of CFSAs.

**1999 Recommendation No. 35 - Deficient Accounting Systems** ***(implemented)***

It is recommended that the Calgary Rocky View Child and Family Services Authority and the Department of Children's Services maintain accounting systems that can be relied upon for the preparation of accurate financial control information.

**1999 Recommendation No. 36 - Business planning for health** ***(progress satisfactory)***

It is again recommended that the Department of Health and Wellness and health authorities implement a joint strategy for improving the timely implementation of authorized business plans.

**1999 Recommendation No. 37 - Performance measurement and reporting** ***(repeated)***

It is again recommended that the Department of Health and Wellness and health authorities implement a plan to improve performance measurement and reporting, including better reporting of results achieved compared to plan.

**1999 Recommendation No. 38 - Meeting equipment needs** ***(repeated)***

It is recommended that the Department of Health and Wellness assess the impact of new requirements for managing equipment and determine whether they have sufficiently diminished the risk of health authorities not meeting equipment needs.

**1999 Recommendation No. 39 - Systems for planning facilities** ***(progress satisfactory)***

It is recommended that the Department of Health and Wellness, in cooperation with health authorities and other departments, further develop systems for planning health facilities and obtain better information to support decisions.

**1999 Recommendation No. 40 - Control over health registration** ***(progress satisfactory)***

It is recommended that the Department of Health and Wellness improve control over health registration to reduce vulnerability of the health system to potential loss of revenue.

**1999 Recommendation No. 41 - Physician funding systems *(repeated)***

It is recommended that the Department of Health and Wellness establish methods for measuring how much of a medical service budget variance should be attributed to each of the various factors included in the agreement with the Alberta Medical Association (AMA).

**1999 Recommendation No. 42 - Clinical practice guidelines *(progress satisfactory)***

It is again recommended that the Department of Health and Wellness establish a process for assessing the benefits and cost of issuing clinical practice guidelines as part of accounting for performance under the new agreement with physicians.

**1999 Recommendation No. 43 - Establishing accountability for results achieved by we//net *(implemented)***

It is again recommended that the We//net Project Office continue to improve systems of accountability in order to manage risks, maximize the prospect of meeting expectations within budget, and to render accountability for results achieved for costs incurred.

**1999 Recommendation No. 44 - Special Reserve Fund *(progress satisfactory)***

It is recommended that the Public Trustee determine and plan for the level of funding required to meet the legislative purposes of the Special Reserve Fund.

**1999 Recommendation No. 45 - Performance information *(repeated)***

It is again recommended that the Department of Justice report the results and costs of its fines collection activities.

**1999 Recommendation No. 47 - Corporate government accounting policies *(repeated)***

It is again recommended that the Treasury Department management initiate changes to the corporate government accounting policies in order to improve accountability.

**1999 Recommendation No. 48 - Allocation of significant costs *(implemented)***

It is again recommended that the Department of Treasury develop a methodology to allocate all significant costs to the entities responsible for delivering outputs.

## 1999-2000

**2000 Page 134 – Measuring and reporting the performance of the heath system *(progress satisfactory)***

We recommend that the Department of Health and Wellness, in cooperation with health authorities, continue with implementation steps for improving performance measurement and reporting on the quality of health services.

**2000 Page 212 - Special needs education *(progress unsatisfactory)***

We again recommend that the Department of Learning work with school jurisdictions to improve the accuracy of information on the costs of delivering special needs education.

**2000 Page 213 - Charter School Accountability *(repeated)***

We recommend that the Department of Learning continue to work with charter schools to develop measurable outcomes so that there is a base from which to measure and evaluate charter school results against their mandates.

**2000 Page 222 - Key Performance Indicator (KPI) Reliability *(repeated)***

We again recommend that the Department of Learning work with the public post-secondary education institutions to improve the reliability of KPIs for credit full load equivalents, graduate employment rate and graduate satisfaction.

**2000 Recommendation No. 1 - Core measures and targets *(implemented)***

We recommend that the Department of Treasury, in conjunction with other ministries, clearly define the core measures and targets in the government business plan.

**2000 Recommendation No. 2 - Linking goals to core businesses** ***(progress satisfactory)***

We recommend that ministries, with assistance from the Department of Treasury, improve the link between goals and core businesses in ministry business plans.

**2000 Recommendation No. 3 – Targets** ***(progress satisfactory)***

We recommend that ministries, in conjunction with the Department of Treasury, ensure that all performance measures in ministry business plans include clearly defined targets.

**2000 Recommendation No. 4 - Integrated Results Analysis** ***(progress satisfactory)***

We recommend that ministries, with assistance from the Department of Treasury, enhance the results analysis included in ministry annual reports by providing an integrated analysis of financial and non-financial performance.

**2000 Recommendation No. 5 - Core businesses** ***(progress satisfactory)***

We recommend that the Ministry of Agriculture, Food and Rural Development business plan be enhanced by structuring it around core businesses, each embracing one or more goals, performance targets related to those goals, strategies designed to achieve those goals, and the budget for the necessary resources.

**2000 Recommendation No. 6 - Computer control environment** ***(progress satisfactory)***

We recommend that Agriculture Financial Services Corporation obtain assurance on the control environment of their outsourced computer services provider.

**2000 Recommendation No. 7 - Shared services support** ***(progress unsatisfactory)***

We again recommend that the Department of Children's Services and the Child and Family Services Authorities examine the support services, including shared services, for opportunities to improve cost effectiveness. We also again recommend that the Department and Authorities enter into service agreements with their service providers.

**2000 Recommendation No. 8 - Business practices and accounting policies** ***(progress satisfactory)***

We recommend that the Department of Children Services work in collaboration with the Child and Family Services Authorities to clarify business practices and ensure financial statements comply with generally accepted accounting principles.

**2000 Recommendation No. 9 - Expenditure forecasts** ***(repeated)***

We recommend that the Department of Children's Services review the funding formula to ensure that the allocation of resources is consistent with the expected needs of each Child and Family Services Authority. We further recommend that the Department and Authorities obtain appropriate information to assist in forecasting and managing costs.

**2000 Recommendation No. 10 Year-end accounting processes** ***(progress satisfactory)***

We recommend that the Department of Children's Services and the Authorities improve their year-end accounting processes in order to produce high quality, accurate and timely financial statements.

**2000 Recommendation No. 11 - Business planning** ***(repeated)***

We again recommend that the business plans of the Child and Family Services Authorities provide clear links between the social and economic factors affecting service delivery and the attendant strategies to mitigate their effect on service delivery. We also recommend that each Authority develop an appropriate number of performance measures to monitor the effectiveness of services.

**2000 Recommendation No. 12 - Assets recorded as grants** ***(implemented)***

We recommend that the Department of Economic Development ensure that expenses and assets arising from new initiatives are disclosed in its financial statements based on the substance of the transactions.

**2000 Recommendation No. 13 - Consistent Action Plans** ***(progress satisfactory)***

We recommend that the Department of Environment's regional and area Action Plans used in the planning process be completed on a consistent basis. There are 17 areas covering the Province for which Action Plans are prepared by the Department's Natural Resources Service.

**2000 Recommendation No. 14 - Monitoring system for DAOs *(implemented)***

We recommend that the Department of Environment fully implement and continue to refine its system for monitoring its Delegated Administrative Organizations.

**2000 Recommendation No. 15 - Accountability for the Casino Gaming Terminal Racetrack Program *(progress satisfactory)***

We recommend that the Ministry of Gaming establish an appropriate accountability system to determine whether public resources provided to the horse racing industry have been spent for their intended purposes and have achieved their objectives.

**2000 Recommendation No. 16 - Accountability of the Alberta Racing Corporation *(progress satisfactory)***

We recommend that the Ministry of Gaming take appropriate steps to hold the Alberta Racing Corporation accountable for the performance of its delegated responsibilities.

**2000 Recommendation No. 17 - Accountability for the cost and quality of health services *(progress satisfactory)***

We recommend that the Department of Health and Wellness further develop a process for defining and reporting the respective accountability of those affecting the cost and quality of health services.

**2000 Recommendation No. 18 - Business planning for health *(progress satisfactory)***

We again recommend that the Department of Health and Wellness and health authorities implement a joint strategy for improving the implementation of authorized business plans.

**2000 Recommendation No. 19 - Reporting the cost of outputs *(repeated)***

We again recommend that the Department of Health and Wellness take a lead role in working with health authorities in reporting the costs of key service outputs.

**2000 Recommendation No. 20 - Reporting population health costs *(repeated)***

We recommend that the Department of Health and Wellness develop a process for reporting the full cost of delivering health services for the population of each health region of Alberta as a means of supporting business planning decisions and the accountability of regional health authorities.

**2000 Recommendation No. 21 - Using information to improve funding systems *(repeated)***

We again recommend that the Department of Health and Wellness examine regional differences in the utilization and cost of health services with a view to improving the system for allocating funds to health authorities.

**2000 Recommendation No. 22 - Accountability for we//net results *(implemented)***

We recommend that the Department of Health and Wellness and the Alberta We//net Project Office review the alignment of accounting, funding, and accountability for we//net to better ensure the achievement of benefits for costs incurred.

**2000 Recommendation No. 23 - Reporting financial results *(repeated)***

We recommend that the Department of Health and Wellness improve the reporting of financial results in the Ministry and Department financial statements.

**2000 Recommendation No. 24 – Skills development program *(repeated)***

We recommend that procedures to monitor compliance by educational institutions with the terms of the Skills Development Program be improved.

**2000 Recommendation No. 25 - Monitoring the Ministry's implementation of the Capital Planning Initiative strategies *(implemented)***

We recommend that the Ministry of Infrastructure monitor and evaluate its progress in implementing the strategies of the Capital Planning Initiative.

**2000 Recommendation No. 26 - Long-term capital asset plans for owned and supported facilities *(progress satisfactory)***

We recommend that the Ministry of Infrastructure obtain further information on the strategic service delivery options and forecasted needs of client ministries to assist in the development of long-term capital asset plans for owned and supported facilities.

**2000 Recommendation No. 27 - Ministry Infrastructure Management Systems *(progress satisfactory)***

We recommend that the Ministry of Infrastructure review the plans in place for the development of the Ministry's infrastructure management systems and satisfy itself that the most cost-effective systems are being developed and that it has the resources necessary to successfully develop and implement the systems.

**2000 Recommendation No. 28 - Information Technology *(repeated)***

We recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, develop systems to assist in the management of cross-government information technology (IT) services and infrastructure.

**2000 Recommendation No. 29 – IMAGIS *(progress satisfactory)***

We recommend that the Ministry of Innovation and Science obtain an appropriate level of assurance that information technology service providers are maintaining effective controls to protect the confidentiality and integrity of IMAGIS data. We also recommend that controls in the IMAGIS system be improved.

**2000 Recommendation No. 30 - Fines and costs *(repeated)***

We again recommend that the Department of Justice report the results and costs of its fines collection activities.

**2000 Recommendation No. 31 - Long-term capital planning *(repeated)***

We recommend that the Department of Learning enhance its systems to ensure that long-term capital planning for school facilities is consistent with strategic plans for the delivery of education.

**2000 Recommendation No. 32 - Institution budgets *(implemented)***

We recommend that the Department of Learning require institution budgets be prepared on the same basis of accounting as the institution's audited financial statements. We also recommend that the Department ensure that the budgets of public post-secondary education institutions are reviewed and approved in accordance with Legislative requirements.

**2000 Recommendation No. 33 - Deferred Maintenance *(repeated)***

We again recommend that the Department of Learning and public post-secondary institutions continue to improve the system to manage the sector's infrastructure by evaluating the overall progress made towards addressing the critical health and safety risks arising because of deferred maintenance.

**2000 Recommendation No. 34 - Information in strategic and divisional plans *(implemented)***

We recommend that Athabasca University ensure sufficient information is contained in the strategic plan and divisional plans to enable senior management and the Governing Council to determine the University's progress in implementing the objectives set out in its plans.

**2000 Recommendation No. 35 - Internal control systems *(repeated)***

We recommend that the University of Alberta ensure control weaknesses are identified and corrected.

**2000 Recommendation No. 36 - Basis of Measurement for Budget *(repeated)***

We recommend the University of Alberta adopt a basis consistent with generally accepted accounting principles for its budget presentation and that the budget encompasses all operating, financing and investing transactions.

**2000 Recommendation No. 37 - Net Assets *(repeated)***

We recommend the University of Alberta determine the level of net assets that will be required to ensure that programs and faculties will continue to be supported.

**2000 Recommendation No. - 38 Project Proposals *(progress satisfactory)***

We recommend that the University of Calgary's capital project proposals demonstrate cost benefits and alignment with the long-term campus plan. We further recommend that project management controls be strengthened.

**2000 Recommendation No. 39 - Governance and accountability** ***(repeated)***

We again recommend that:

- Those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres.
- The entity or entities responsible for academic health and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established.

We further recommend that the Universities of Alberta and Calgary take the lead in addressing the need for a governance structure for academic health.

**2000 Recommendation No. 40 - Long-range capital plan** ***(progress satisfactory)***

We recommend that Grant MacEwan College perform an assessment of its long-range facilities requirements and incorporate this assessment into a long-range capital plan.

**2000 Recommendation No. 41 - Risks associated with the Crown royalty crude oil marketing system** ***(progress satisfactory)***

We recommend that the Department of Resource Development take action to address the risks associated with the automated systems relating to the collection and marketing of Crown royalty crude oil.

**2000 Recommendation No. 42 - Corporate government accounting policies** ***(repeated)***

We again recommend that the Department of Treasury initiate changes to the corporate government accounting policies in order to improve accountability.

**2000 Recommendation No. 43 - Cost allocation** ***(implemented)***

We again recommend that the Department of Treasury develop a methodology to allocate all significant costs to those entities which are responsible for delivering outputs.

**2000 Recommendation No. 44 - Strategies to improve reporting throughout the year** ***(repeated)***

We again recommend that the Department of Treasury promote the benefits of quality financial reporting throughout the fiscal year.

**2000 Recommendation No. 45 - Earmarked assets** ***(implemented)***

We again recommend that the Province's consolidated financial statements and the Ministry of Treasury financial statements provide expanded disclosure of assets set aside for particular purposes.

**2000 Recommendation No. 46 - Reporting performance information** ***(repeated)***

We recommend that the Department of Treasury enhance the background information and results analysis included in Measuring Up.

**2000 Recommendation No. 47 - Performance measurement for social and economic development programs within the tax collection system** ***(repeated)***

We recommend that the Department of Treasury identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax collection system.

**2000 Recommendation No. 48 - Forecasting corporate income tax revenue** ***(implemented)***

We recommend that the Department of Treasury improve its forecasting of corporate income tax revenue to facilitate more accurate reporting.

**2000 Recommendation No. 49 - Strengthening Internal Controls** ***(repeated)***

We recommend that Alberta Treasury Branches strengthen the internal controls within its financial systems by ensuring account reconciliations are performed regularly, adequate division of duties exists at the branches and useful systems documentation is maintained.

Following are the numbered recommendations in the Auditor General's 1999-2000 Annual Report and the government's response to them.

## Cross Government

| Auditor General's Observations | Government's Response |
|---|---|
| 1. **Core measures and targets**<br>We recommend that the Department of Treasury, in conjunction with other ministries, clearly define the core measures and targets in the government business plan. | Accepted. The government business plan is a work in progress. It has always been the intention that each goal under the three core businesses *People, Prosperity* and *Preservation* would have at least one core measure which would have a performance target associated with it. Some measures are still under construction while others are being refined as better metrics are discovered. The process of establishing appropriate targets is complex and involves the input of many stakeholders and interest groups. |
| 2. **Linking goals to core businesses**<br>We recommend that ministries, with assistance from the Department of Treasury, improve the link between goals and core businesses in ministry business plans. | Accepted. Ministries are continuously striving to improve the alignment between goals, strategies, measures and targets, and to clarify their relationship with the appropriate core business(es). |
| 3. **Targets**<br>We recommend that ministries, in conjunction with the Department of Treasury, ensure that all performance measures in ministry business plans include clearly defined targets. | Accepted. The objective of measuring performance is to foster a discussion around long term improvements rather than measure and report on short term wins. It is the overall direction of the results being measured that is important. |
| 4. **Integrated Results Analysis**<br>We recommend that ministries, with assistance from the Department of Treasury, enhance the results analysis included in ministry annual reports by providing an integrated analysis of financial and non-financial performance. | Accepted. The quality of results analysis included in ministry annual reports continues to evolve. Efforts will be made to better integrate analysis of financial and non-financial performance. |

## Agriculture, Food And Rural Development

| | |
|---|---|
| 5. **Core businesses**<br>We recommend that the Ministry of Agriculture, Food and Rural Development business plan be enhanced by structuring it around core businesses, each embracing one or more goals, performance targets related to those goals, strategies designed to achieve those goals, and the budget for the necessary resources. | Accepted. A description of the Ministry's core businesses and their costs will be included in the Ministry 2001-2004 business plan. Implementation of the recommendation regarding goals, performance targets, strategies and budget will commence with the development of the 2002-2005 business plan. |

| Auditor General's Observations | Government's Response |
|---|---|
| 6. **Computer Services Computer control environment**<br>We recommend that Agriculture Financial Services Corporation obtain assurance on the control environment of their outsourced computer services provider. | Accepted in principle. The outsourcing contract expires June 30, 2001. The corporation will implement the recommendation when a new or renewed contract is signed. The corporation will consult with the Office of the Auditor General to determine the most effective way to implement this recommendation. |

## Children's Services

| | |
|---|---|
| 7. **Shared services support**<br>We again recommend that the Department of Children's Services and the Child and Family Services Authorities examine the support services, including shared services, for opportunities to improve cost effectiveness. We also again recommend that the Department and Authorities enter into service agreements with their service providers. | Accepted in principle. The cost-effectiveness of support services will be reviewed in conjunction with the transfer of many services to the Alberta Corporate Service Centre (ACSC). Service agreements between the authorities and the service providers were implemented effective April 1, 2000. |
| 8. **Business practices and accounting policies**<br>We recommend that the Department of Children's Services work in collaboration with the Child and Family Services Authorities to clarify business practices and ensure financial statements comply with generally accepted accounting principles. | Accepted in principle. The process of clarifying and formalizing accounting policies and business practices is underway. The basis of accounting for the authorities will be further discussed with Alberta Treasury to ensure consistency in the government's corporate accounting policies. |
| 9. **Expenditure forecasts**<br>We recommend that the Department of Children's Services review the funding formula to ensure that the allocation of resources is consistent with the expected needs of each Child and Family Services Authority. We further recommend that the Department and Authorities obtain appropriate information to assist in forecasting and managing costs. | Accepted. The Ministry is committed to improving the funding model taking into consideration variations between regions, best practices in case and program management, and the impact of legislated and mandated program parameters. Work to improve access to expenditure information and facilitate monitoring and forecasting of costs is underway. |
| 10. **Year-end accounting processes**<br>We recommend that the Department of Children's Services and the Authorities improve their year-end accounting processes in order to produce high quality, accurate and timely financial statements. | Accepted. Procedures have been implemented to reconcile and review accounts on a monthly basis. Detailed financial control standards are being established to ensure consistency. |

| Auditor General's Observations | Government's Response |
|---|---|
| 11. **Business planning**<br>We again recommend that the business plans of the Child and Family Services Authorities provide clear links between the social and economic factors affecting service delivery and the attendant strategies to mitigate their effect on service delivery. We also recommend that each Authority develop an appropriate number of performance measures to monitor the effectiveness of services. | Accepted. The Ministry is developing a planning process that links environmental trends to proposed actions and utilizes relevant performance measures at the authority level. |
| **Economic Development** | |
| 12. **Assets recorded as grants**<br>We recommend that the Department of Economic Development ensure that expenses and assets arising from new initiatives are disclosed in its financial statements based on the substance of the transactions. | Accepted. |
| **Environment** | |
| 13. **Consistent Action Plans**<br>We recommend that the Department of Environment's regional and area Action Plans used in the planning process be completed on a consistent basis. There are 17 areas covering the Province for which Action Plans are prepared by the Department's Natural Resources Service. | Accepted. Natural Resources Services has utilized an operational plan at the service level, in conjunction with action plans at the area level for the fiscal years 1999-2000 and 2000-2001. Improvement in consistency is expected in future years. |
| 14. **Monitoring system for DAOs**<br>We recommend that the Department of Environment fully implement and continue to refine its system for monitoring its Delegated Administrative Organizations. | Accepted in principle. Monitoring will continue to be enforced. Both informal and formal communication is occurring, particularly with respect to business planning and annual reporting in an effort to address the requirements outlined in the evaluation framework. |
| **Gaming** | |
| 15. **Accountability for the Casino Gaming Terminal Racetrack Program**<br>We recommend that the Ministry of Gaming establish an appropriate accountability system to determine whether public resources provided to the horse racing industry have been spent for their intended purposes and have achieved their objectives. | Accepted. The new process for disbursing funds to the racing industry in Alberta will be fully open and transparent and will include, as part of the agreements, the necessary accountability framework for all funds disbursed through the Racing Industry Renewal Initiative. |

| Auditor General's Observations | Government's Response |
|---|---|
| 16. **Accountability of the Alberta Racing Corporation**<br>We recommend that the Ministry of Gaming take appropriate steps to hold the Alberta Racing Corporation accountable for the performance of its delegated responsibilities. | Accepted. Immediate steps to address the specific issues commented upon in the Auditor General's Report include:<br>· All payments of gaming revenues to the Alberta Racing Corporation have ceased effective September 21, 2000.<br>· Review of and commentary on the Alberta Racing Corporation's business plan and annual report will be done.<br>· A detailed accounting of all gaming revenues received by the Alberta Racing Corporation will be provided to the Alberta Gaming and Liquor Commission.<br>· The Ministry's next annual report will include a section on the Racing Appeal Tribunal. |
| **Health and Wellness** | |
| 17. **Accountability for the cost and quality of health services**<br>We recommend that the Department of Health and Wellness further develop a process for defining and reporting the respective accountability of those affecting the cost and quality of health services. | Accepted. The Ministry is working on a number of initiatives such as the Medical Services Project and the Alternative Payment Plan Pilot Project which will help define the reporting, accountability, and responsibility relative to costs and health services. |
| 18. **Business planning for health**<br>We again recommend that the Department of Health and Wellness and health authorities implement a joint strategy for improving the implementation of authorized business plans. | Accepted. The Ministry will collaborate with health authorities and others to determine where streamlining of the process can occur to improve implementation of the 2001-2004 business plans. |
| 19. **Reporting the cost of outputs**<br>We again recommend that the Department of Health and Wellness take a lead role in working with health authorities in reporting the costs of key service outputs. | Accepted. |

| Auditor General's Observations | Government's Response |
|---|---|
| 20. **Reporting population health costs**<br>We recommend that the Department of Health and Wellness develop a process for reporting the full cost of delivering health services for the population of each health region of Alberta as a means of supporting business planning decisions and the accountability of regional health authorities. | Accepted in principle. The Ministry will examine how relevant reporting can be enhanced to support decision-making. |
| 21. **Using information to improve funding systems**<br>We again recommend that the Department of Health and Wellness examine regional differences in the utilization and cost of health services with a view to improving the system for allocating funds to health authorities. | Accepted. An in-depth study is being conducted that will examine regional differences in utilization and costs and may result in enhancements to the funding formula. |
| 22. **Accountability for we//net results**<br>We recommend that the Department of Health and Wellness and the Alberta We//net Project Office review the alignment of accounting, funding, and accountability for we//net to better ensure the achievement of benefits for costs incurred. | Accepted. A proposal is being considered regarding future funding of we//net to achieve consistent reporting and accountability. |
| 23. **Reporting financial results**<br>We recommend that the Department of Health and Wellness improve the reporting of financial results in the Ministry and Department financial statements. | Accepted. The Ministry is reviewing the budget process to improve the linkages and reporting of objectives with financial performance. |

## Human Resources And Employment

| Auditor General's Observations | Government's Response |
|---|---|
| 24. **Skills development program**<br>We recommend that procedures to monitor compliance by educational institutions with the terms of the Skills Development Program be improved. | Accepted in principle. A new Memorandum of Understanding (MOU) has been finalized that addresses the risks identified in the audit. The Ministry will develop interim procedures to ensure compliance with the program terms to provide adequate assurance until the new MOU is fully implemented. In addition, the Skills Development Program is currently being reviewed along with other related programs to determine the most effective method for delivering these services. |

| Auditor General's Observations | Government's Response |
|---|---|
| **Infrastructure** | |
| 25. **Monitoring the Ministry's implementation of the Capital Planning Initiative strategies**<br>We recommend that the Ministry of Infrastructure monitor and evaluate its progress in implementing the strategies of the Capital Planning Initiative. | Accepted. The Ministry has been monitoring the progress on the implementation of the Capital Planning Initiative through:<br>· the approved business plan,<br>· the semi-annual Corporate Capital Overview process,<br>· the strategies/work plan established for the fiscal year, and<br>· coordination of activities through a cross-government working committee. |
| 26. **Long-term capital assets plans for owned and supported facilities**<br>We recommend that the Ministry of Infrastructure obtain further information on the strategic service delivery options and forecasted needs of client ministries to assist in the development of long-term capital asset plans for owned and supported facilities. | Accepted. The Ministry obtains and reviews information on program delivery needs and strategic directions from ministries. Capital planning and decisions take into consideration both the strategic program needs and directions of the majority of ministries and the condition, utilization and functionality of the capital assets. |
| 27. **Ministry Infrastructure Management Systems**<br>We recommend that the Ministry of Infrastructure review the plans in place for the development of the Ministry's infrastructure management systems and satisfy itself that the most cost-effective systems are being developed and that it has the resources necessary to successfully develop and implement the systems. | Accepted. The Ministry is committed to developing an integrated Information Management System for all types of infrastructure. Systems upgrades/ development are not done in isolation. Cost-effective solutions are investigated and if appropriate, adopted, while concurrently addressing the specific capital asset managements needs of the infrastructure programs.<br>The objective is to ensure that the approach would be cost effective and consistent with the Capital Planning Initiative's long-term objective of developing an integrated system for the government. |

## Innovation and Science

| Auditor General's Observations | Government's Response |
|---|---|
| 28. **Information Technology**<br>We recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, develop systems to assist in the management of cross-government information technology (IT) services and infrastructure. | Accepted. An accountability framework is being developed with the participation of all ministries and other important stakeholders. In addition, processes and tools to support the management of IT services and infrastructure will be implemented. |
| 29. **IMAGIS**<br>We recommend that the Ministry of Innovation and Science obtain an appropriate level of assurance that information technology service providers are maintaining effective controls to protect the confidentiality and integrity of IMAGIS data. We also recommend that controls in the IMAGIS system be improved. | Accepted. Payments Systems Corporation (PSC) provides continuing assurance that the controls over the IMAGIS data meet the requirements set out in the Master Agreement with the Government of Alberta. Weekly meetings occur with PSC to review strategic plans and delivery of day-to-day services. Additional opportunities to ensure the effectiveness of PSC's control systems will be explored as necessary.<br>Password lockouts and time-out functionality will be in place for IMAGIS users no later than March 2001. The effectiveness of these functions will be reviewed with the Senior Financial Officers' and Human Resource Directors' Councils. |

## Justice

| Auditor General's Observations | Government's Response |
|---|---|
| 30. **Fines and costs**<br>We again recommend that the Department of Justice report the results and costs of its fines collection activities. | Accepted. An action plan to respond to this recommendation is under development and will be finalized before the end of 2000. |

## Learning

| Auditor General's Observations | Government's Response |
|---|---|
| 31. **Long-term capital planning**<br>We recommend that the Department of Learning enhance its systems to ensure that long-term capital planning for school facilities is consistent with strategic plans for the delivery of education. | Accepted. Plans are in place to set up ongoing regular communication between the Ministry of Learning and the Ministry of Infrastructure to exchange information on long-term capital planning that focuses on Learning's goals and other issues related to critical outcomes and business plans for the respective ministries. Also, the Ministry of Learning is represented on committees that review school jurisdictions' three-year business plans and capital plans. |

| Auditor General's Observations | Government's Response |
|---|---|
| 32. **Institution budgets**<br>We recommend that the Department of Learning require institution budgets be prepared on the same basis of accounting as the institution's audited financial statements. We also recommend that the Department ensure that the budgets of public post-secondary education institutions are reviewed and approved in accordance with Legislative requirements. | Accepted. Implementation will take some time as institutions need to change their budget processes and universities will need to adjust their timelines for submission. |
| 33. **Deferred Maintenance**<br>We again recommend that the Department of Learning and public post-secondary institutions continue to improve the system to manage the sector's infrastructure by evaluating the overall progress made towards addressing the critical health and safety risks arising because of deferred maintenance. | Accepted. Working with Infrastructure, the Ministry will require institutions to include information on progress in addressing critical health and safety issues in their accountability reports on the use of their Infrastructure Renewal funding. |
| 34. **Information in strategic and divisional plans**<br>We recommend that Athabasca University ensure sufficient information is contained in the strategic plan and divisional plans to enable senior management and the Governing Council to determine the University's progress in implementing the objectives set out in its plans. | Accepted. The university will put steps in place to ensure that sufficient information is contained in its strategic and divisional plans. These include identifying specific measures to assess progress of the implementation of its Strategic University Plan, incorporating appropriate Alberta Learning Key Performance Indicators, and including measurable objectives in its divisional plans. |
| 35. **Internal control systems**<br>We recommend that the University of Alberta ensure control weaknesses are identified and corrected. | Accepted. The university is revising its existing accountability structure and decision-making framework, within the context of a decentralized management structure as recommended by the audit committee. Detailed review of critical controls and processes will be conducted and any weaknesses identified will be corrected. |
| 36. **Basis of Measurement for Budget**<br>We recommend the University of Alberta adopt a basis consistent with generally accepted accounting principles for its budget presentation and that the budget encompasses all operating, financing and investing transactions. | Accepted in principle. The university's first priority is to provide its board with comprehensive planning and budget information to enable it to focus its attention on the strategic direction of the university. This includes both a cash and GAAP based statement of operations. The university is willing to investigate the feasibility and utility of developing a budgeted cash-flow statement prepared on a GAAP basis. |

| Auditor General's Observations | Government's Response |
|---|---|
| 37. **Net Assets**<br>We recommend the University of Alberta determine the level of net assets that will be required to ensure that programs and faculties will continue to be supported. | Accepted in principle. The university's net assets deficiency is largely comprised of employee pension, long-term disability and vacation entitlements. Strategies are in place to address these liabilities over time. The university pursues targeted funding in support of indirect costs of research and for capital facilities and equipment replacement. |
| 38. **Project Proposals**<br>We recommend that the University of Calgary's capital project proposals demonstrate cost benefits and alignment with the long-term campus plan. We further recommend that project management controls be strengthened. | Accepted. Proposed capital projects will be required to demonstrate fit with the new Campus Community Plan. All capital projects now follow revised policies and procedures, which strengthen existing project management controls. |
| 39. **Governance and accountability**<br>We again recommend that:<br>· Those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres.<br>· The entity or entities responsible for academic health and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established.<br>We further recommend that the Universities of Alberta and Calgary take the lead in addressing the need for a governance structure for academic health. | Accepted in principle. The universities of Alberta and Calgary intend to work closely with the Council of Academic Health Centres over the coming year in order to review the council's governance and accountability. |
| 40. **Long-range capital plan**<br>We recommend that Grant MacEwan College perform an assessment of its long-range facilities requirements and incorporate this assessment into a long-range capital plan. | Accepted. The college is currently determining its long-range facilities requirements and will incorporate this assessment into its long-term capital plans. |

| Auditor General's Observations | Government's Response |
|---|---|
| **Resource Development** | |
| 41. **Risks associated with the Crown royalty crude oil marketing system**<br>We recommend that the Department of Resource Development take action to address the risks associated with the automated systems relating to the collection and marketing of Crown royalty crude oil. | Accepted. The computer application relating to crude oil royalty volumes is very stable and represents a low risk to the department. Plans are currently underway to migrate this application to an environment consistent with the technical direction of the Ministry. |
| **Treasury** | |
| 42. **Corporate government accounting policies**<br>We again recommend that the Department of Treasury initiate changes to the corporate government accounting policies in order to improve accountability. | Accepted in principle. The government's corporate accounting policies will continue to be reviewed, in consultation with ministries and the Office of the Auditor General and refined where Treasury Board considers accountability can be improved. |
| 43. **Cost allocation**<br>We again recommend that the Department of Treasury develop a methodology to allocate all significant costs to those entities which are responsible for delivering outputs. | Under review. There is ongoing discussion between Treasury and the Auditor General staff on the most practical and cost efficient method to provide additional information on allocated costs. |
| 44. **Strategies to improve reporting throughout the year**<br>We again recommend that the Department of Treasury promote the benefits of quality financial reporting throughout the fiscal year. | Accepted. Improving in the quality of financial reporting throughout the year is an ongoing process. Treasury in consultation with ministries and the Office of the Auditor General will continue to review progress in this area. |
| 45. **Earmarked assets**<br>We again recommend that the Province's consolidated financial statements and the Ministry of Treasury financial statements provide expanded disclosure of assets set aside for particular purposes. | Partially accepted. Consideration will be given to additional disclosure of the assets of the Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund and Alberta Heritage Science and Engineering Research Endowment Fund as earmarked for specific purposes.<br>The preamble to the *Alberta Heritage Saving Trust Fund* (AHSTF) *Act* states, the mission of the AHSTF is: "To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial return on those |

| Auditor General's Observations | Government's Response |
|---|---|
| | savings for current and future generations of Albertans." The Act also provides for the return of AHSTF's net income to the General Revenue Fund after deducting the impact of inflation to maintain the value of AHSTF's assets. As a result, it would be inappropriate to indicate these assets are "set aside for particular purposes". The Province's consolidated financial statements already adequately explain the nature of the assets held by the AHSTF. |
| 46. **Reporting performance information**<br>We recommend that the Department of Treasury enhance the background information and results analysis included in Measuring Up. | Accepted. |
| 47. **Performance measurement for social and economic development programs within the tax collection system**<br>We recommend that the Department of Treasury identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax collection system. | Not accepted. The Auditor General acknowledges there are no common standards for reporting such programs within the tax collection system. The different tax rates in Alberta compared with other jurisdictions and non-existence of provincial sales tax makes establishing a "benchmark" revenue for a government highly subjective. In the government's view, any arbitrary method to attribute specific results to these revenue differences would not be meaningful. |
| 48. **Forecasting corporate income tax revenue**<br>We recommend that the Department of Treasury improve its forecasting of corporate income tax revenue to facilitate more accurate reporting. | Accepted. Steps are being taken to improve corporate income tax modeling and the timeliness and quality of information available on corporate income tax receipts. |
| 49. **Strengthening Internal Controls**<br>We recommend that Alberta Treasury Branches strengthen the internal controls within its financial systems by ensuring account reconciliations are performed regularly, adequate division of duties exists at the branches and useful systems documentation is maintained. | Accepted. Management is in the process of reviewing and documenting internal processes to ensure the integrity of the accounting systems. |

# Legislative mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the *Auditor General Act*. The Auditor General is the auditor of all government ministries, departments, funds containing public money, Provincial agencies, including publicly owned advanced education institutions, and most regional health authorities.

The Act deals with the Auditor General's responsibilities by stating what he must and can report, to whom, and when.

## Section 18 report and other audit reports

In his section 18 report, the Auditor General states whether, in his opinion, the consolidated financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 2000-2001 consolidated financial statements is reproduced later in this section of the annual report. Similar reports were issued on the financial statements of all entities of which he is the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

## Section 19 reports

The report you are reading is the section 19 report for 2000-2001. Section 19 reports are annual reports to the Legislative Assembly on the work of the Office. These reports include audit observations and recommendations arising from that work, together with any other matters that the Auditor General believes should be brought to the attention of the Legislative Assembly.

## Section 17 reports

Under section 17 of the *Auditor General Act*, the Legislative Assembly or the Executive Council may ask the Auditor General to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 2000-2001 fiscal year, the Auditor General received no direction from the Executive Council to perform a special duty.

### Section 20 reports

The Auditor General can report under section 20 to the Legislative Assembly on any matters of importance or urgency, which in his opinion, should not be delayed until the next annual report.

No reports have been issued under section 20 of the Act since the last annual report.

### Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully later in this section, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the Deputy Minister or senior executive officer of the audited entity. A copy is sent to the Minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the *Financial Administration Act*.

## Mission

The following statement continues to guide the work of the Auditor General's Office:

> The mission of the Office of the Auditor General of Alberta is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

### Proposing solutions for the improved use of public resources

All of our clients face risks which, if not well understood and managed, could jeopardize their success. Business risks are sometimes difficult to identify and they are constantly changing. We believe we can maximize the value of our advice and recommendations by helping our clients to identify their changing business risks. We can then help them address and manage these risks, and thereby improve their programs. We do this by providing professional services, which help them find opportunities to reduce or eliminate their risks, to improve their use of public resources, and to better meet their goals.

## Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year-end, the results of its operations and the changes in its financial position.

Our responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Legislative Assembly in examining the government's management and control of public resources. Our annual report and the annual reports of ministries are used by the Committee in its examination of the use and control of public resources.

We believe that effective performance reporting, which includes financial statement reporting, is essential for effective governance and accountability. We encourage our clients to develop improved measures of performance. Through our assurance services, we will also validate the resulting information and help to interpret expanded performance reports. We believe that measuring results and linking them to specific costs is critical to evaluating cost effectiveness, and will lead to improved management of public resources.

## Types of audit

Throughout the *Ministry Audits and Recommendations* section of this report, the term "financial audit" is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 2000-2001 is also identified.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 2000-2001 have been reported to management.

## Report process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

Meetings (exit conferences and audit committee meetings) were held at the conclusion of audits to discuss significant audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. Representatives of this Office and senior financial and other management officials of the audited entities attended these meetings.

The main purposes of these meetings were to ensure that senior management and boards understood the audit findings, to discuss recommendations, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. We prepared and circulated minutes of these meetings to minimize the risk of misunderstandings on matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the *Financial Administration Act*.

Subsequently, recommendations considered important enough to be reported to ministers, Public Accounts Committee members, other MLAs and the public were selected for inclusion in this report. When determining significance, the Auditor General takes into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all ministers and deputy ministers or chief executive officers were informed of observations that relate to areas for which they are responsible.

The Minister of Finance, on behalf of the government, responded publicly to the numbered recommendations in the 1999-2000 Annual Report on April 24, 2001. Of the 49 numbered recommendations, 37 were accepted, nine were accepted in principle, one was under review, and two were rejected.

# Public Accounts

## Audit

The 2000-2001 Public Accounts comprise the Annual Report of the Government of Alberta (including the audited Province's consolidated financial statements and Measuring up) plus the Ministry Annual Reports, including for each ministry the audited financial statements of the ministry and its components.

## Consolidated financial statements

The 2000-2001 consolidated financial statements report on the Province's financial condition and capital assets, results of operations and cash flows.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities of ministries whose financial statements are published in Ministry Annual Reports, including for example, departments, and regulated funds such as the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include certain Provincial agencies such as universities, public colleges and technical institutes, and regional health authorities and school jurisdictions.

# Accounting Principles and Assurance Standards

The principal source of Canadian generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting Board of the Institute issues accounting statements. These statements apply to and guide accounting in the public sector.

## Accounting principles

Canadian generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Canadian generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

## Assurance standards

The work of the Auditor General's Office is carried out in accordance with the assurance standards and recommendations published by the Canadian Institute of Chartered Accountants.

# Reservations in auditor's reports

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements.

As described in detail in the Treasury section, on page 245, the Auditor General reserved his opinion on most 2000-2001 ministry and department financial statements because of significant departures from Canadian generally accepted accounting principles.

Further, his 2000-2001 Auditor's Reports for the following contained reservations of opinion for the reasons described:

Excluded direct costs

- Fourteen Child and Family Services Authorities

Excluded direct costs and overstated revenue

- One Child and Family Services Authority

Excluded direct costs and omission of amounts recoverable from others

- One Child and Family Services Authority

Excluded direct costs and excluded capital assets

- Two Child and Family Services Authorities

Excluded revenues and expenses

- Persons with Developmental Disabilities Calgary Region Community Board

Excluded direct costs, understated liabilities, and excluded assets

- Edmonton Community Boards for Persons with Developmental Disabilities

Excluded direct costs, revenue and assets, and understated liabilities

- Michener Centre Facility Board

Understated revenue and net assets

- Alberta School Foundation Fund

Overstated capital assets

- Chinook Regional Health Authority

Excluded capital assets and overstated liabilities

- Historic Resources Fund

Excluded capital assets

- Alberta Alcohol and Drug Abuse Commission
- Environmental Protection and Enhancement Fund
- Office of the Ombudsman

Incorrect recording of a capital lease

- Alberta Energy and Utilities Board

Understated liabilities

- Victims of Crime Fund

---

## Other information included in auditor's reports

The 2000-2001 Auditor's Reports for the following contained additional information as follows:

- Consolidated financial statements of the Province of Alberta

  No legislative authority for certain expenditures

- Departments of Learning and Innovation and Science

  Transfer of funds between departments without statutory authority

- Persons with Developmental Disabilities boards

  Provisions of services not in compliance with legislative authority

- Ministry of Gaming (Alberta Gaming and Liquor Commission)

  Certain expenditures not in compliance with the applicable governing legislation

- Olympic Oval/Anneau Olympique

  Special Equipment Reserve balance in contravention of the terms of applicable agreement

Section 18 of the *Auditor General Act* requires that the Auditor General report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements and any other comments related to his audit of the financial statements, and to state his reasons for any reservation of opinion.

## Opinion on the financial statements

The Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 2001, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statements of financial position and capital assets of the Province of Alberta as at March 31, 2001 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of Finance Department management. My responsibility is to express an opinion on these financial statements based on my audit.

"I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

"In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position and capital assets of the Province of Alberta as at March 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements.

"I also report that there was no legislative authority by March 31, 2001 for the cost of the Alberta Energy Tax Refund program included in the financial statements. The $345 million cost of this refund program is identified in Schedule 1 to the consolidated financial statements."

The Auditor's Report was dated June 20, 2001.

# Office of the Auditor General
## Results Analysis
## March 31, 2001

## Mission

> *"To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans".*

Accountable to the members of the Legislative Assembly, the Office of the Auditor General (OAG) is ultimately responsible to the public who require assurance that the government's performance reporting is credible.

The Auditor General is appointed by the Legislative Assembly of Alberta and, pursuant to the *Auditor General Act*, the Auditor General and staff staff of the OAG fulfil the Auditor General's statutory duties.

The purpose of the OAG is to examine and provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it. Specifically, the Auditor General performs the following duties:

- Reports on the results of his examinations of the entities for which he is the auditor, giving details of any reservation of opinion made in an audit report, and advises the Legislative Assembly on the work of his Office, including whether he received all the information, reports and explanations he required;
- Is accountable to the Public Accounts Committee for matters contained in the Auditor General's Annual Report.
- Assists the Provincial Audit Committee and must give to the Committee any information he considers necessary for understanding the scope and results of the Auditor General's audits of government entities, Provincial agencies and Crown-controlled organizations.
- Trains legislative auditors.

The Auditor General is uniquely positioned to fulfil this mission because both he and his Office:

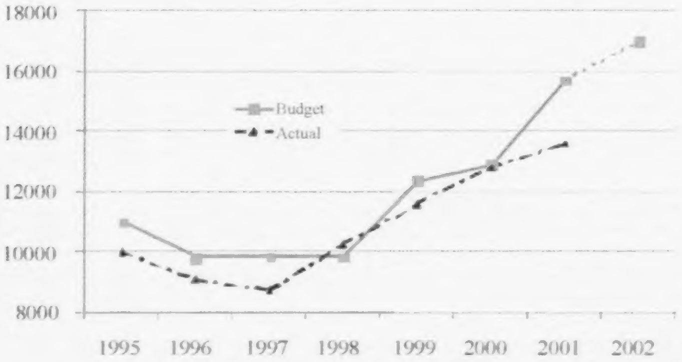
- are independent of government and can, therefore, offer impartial opinions and recommendations on government operations and management practices;
- possess in-depth knowledge of :
- complex government structures and systems used to manage public resources,
- legislative authorities governing reporting organizations,
- information systems auditing,
- issues facing government entities in Alberta;
- adhere to accounting and assurance standards recommended by The Canadian Institute of Chartered Accountants;
- possess a business perspective that is derived from the ongoing professional training, client interaction, and professional exposure.

## Office Performance

In comparison to budget

The OAG's primary source of funds available for operations is the annual appropriation by the Legislative Assembly. For 2000-2001, the funding approved was $15,252,551 for operating purposes, and $431,000 for capital purposes. Operating funding included the amount of $1,045,000 requested through supplemental estimate to fund the cost of temporary staff services. While the Office returned funds to the Legislative Assembly for the 2000-2001 operating year, the total cost of providing assurance services continues to increase. The Office does, however, continue to place a high degree of scrutiny on cost control and effective spending. Figure 1 shows the budgets approved in comparison to actual funding since 1995.

*Figure 1: Budgets Approved by the Legislative Assembly (000's)*



The Office is returning $2,118,906 to the Legislative Assembly for the 2000-2001 fiscal year. This amount comprises $1,806,796 for operating purposes and $312,110 for capital purposes. The operating amount includes $452,414 of the supplemental funds approved for the Office in December 2000. Table 1 reconciles the funds returned to their financial line item. This Table also identifies the Office's significant variances from budget for which explanations follow.

## Operating Variances

Approximately 70% of current operating expenses cover salaries, wages and benefits, plus the costs of contract and temporary staff. As stated in past reports, the most significant business challenge continues to be the shortage of trained professional staff to meet the increasing demands for services.

At March 31, 2001 the current staff complement was 114 full-time equivalent positions. This total fluctuates, but overall, since 1996, our full time equivalent positions have increased by only one position. In contrast, the number of audit hours has increased by 8.45% or

***Table 1: Funding Returned***

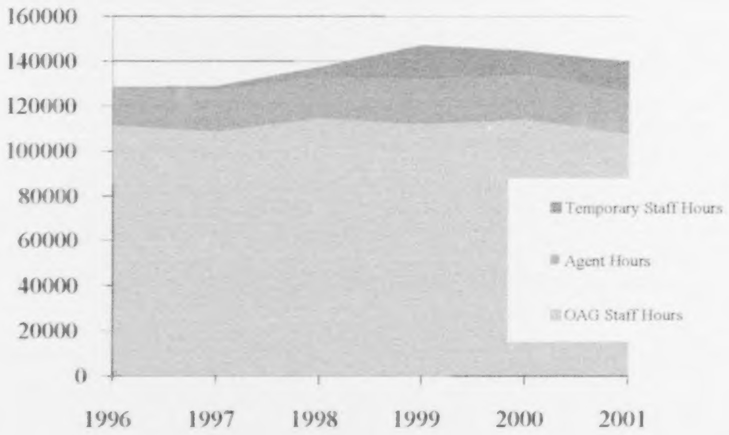
| | | |
|---|---|---|
| Operating funds | | |
| Temporary staff services | $ | 452,414 |
| Professional services | | 350,090 |
| Agent professional services | | 854,345 |
| Other | | 149,947 |
| | | 1,806,796 |
| Capital funds | | |
| Management information software | | 250,000 |
| Records management software | | 20,000 |
| Other software | | 42,110 |
| | | 312,110 |
| | $ | 2,118,906 |

10,900 hours, which would require seven additional positions. As shown in Figure 2, the staff of the OAG continue to perform the majority of the work, and directly supervise the work of temporary staff and agents.

## Temporary Services

To cope with staffing challenges, the OAG continues to rely on temporary resources from accounting firms and manpower agencies to address internal resource demands. Using temporary staff allows the OAG to staff its projects during peak times without hiring permanent staff that cannot be fully utilized throughout the year.

*Figure 2: Total Hours by Resource Type*



There are, however, downsides to relying on temporary staff. For example, the costs and logistics of training short-term staff is a challenge since OAG resources are diverted from direct audit work. Permanent staff also require supervision, but since they are training continually in legislative audit methodology, less direct supervision is required. Moreover, the cost of temporary staff is variable and reflects market demand.

## Agent and Other Professional Services

The Office also employs agents as a strategy to meet work demands. Since 1980, CA firms have been extensively used to complete audit work. In the past year, 21 public accounting firms in 13 communities across the Province assisted the OAG. When using agents, OAG staff continue to lead the work, but our practice benefits by using additional resources to meet peak work demands, employing specialist skills cost-effectively, gaining a point of reference for comparing our methodology and costs, and saving on travel costs.

In the past year, the Agent Professional Services budget was under spent by $854,345 or 24.4%. This is due to a number of factors, including:

- audit efficiencies gained through OAG, agent and client efforts;
- postponement of certain system audit projects due to priority demands;
- greater use of internal resources for completing projects, reducing agent time and costs on projects.

Similarly, the Other Professional Services budget was under spent by $350,090, or 64.7% of budget. Of this amount, $200,000 relates to computer system audit specialists that were not employed due to certain projects being postponed because of changes in OAG and client priorities. The remaining $150,090 relates to legal and other consulting services not required in the current year.

### Other Operating Expenses

In the Other expense category highlighted in Table 1, employee related consulting costs, professional fees, training and development, travel, and repairs and maintenance experienced variances over 10%.

- Employee related consulting costs included amounts for recruiting professional staff through professional recruitment firms. While such firms were used, they were not used to the extent initially contemplated.
- Professional training was not taken to the extent planned; this is largely a factor of resource demands and the inability of OAG staff to take time for formal training. Also, because of the change in the Chartered Accountant professional program lower costs were incurred. Under the new program, the Office will pay course fees on an ongoing basis as opposed to a single large fee at the start of each student's professional program.
- Travel expenses were approximately $42,000 lower than budget due to lower costs associated with using local agents to perform audits, thereby reducing OAG travel costs, and reduced travel associated with professional development.
- Repairs and maintenance expenses were approximately $6,900 under budget.

In the remaining operating expense categories, budget variances were less than 10% and do not reflect significant items.

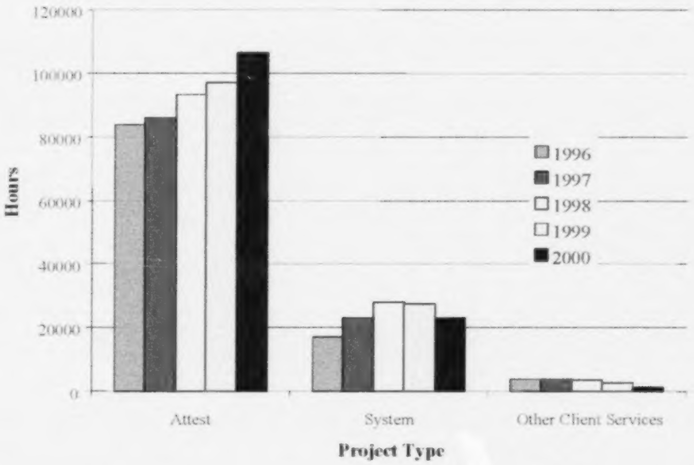
### Capital Items

The OAG had planned to substantially reinvest in its knowledge and records management software. Current internal systems are over 14 years old, and do not adequately support the OAG's business practices and continue to hinder our development as a leader in legislative auditing. These projects have been carried forward to the next fiscal year to allow further analysis of business needs. As a result, the capital budget is under spent by approximately $312,000.

#### By output

Schedule 1 of the Office's financial statements capsulizes the output of the OAG in financial terms. This Schedule complements the Annual Report of the Auditor General. The Annual Report details the qualitative work done by the Office, while Schedule 1 quantifies the cost of doing that work. It must be noted that due to timing differences, fiscal 2001 captures the Annual Report released September 2000; as such, all references to recommendations and client information refer to information found in that Annual Report.

*Figure 3: Project History*



Overall, the number of recommendations increased over the prior year. The number of recommendations serves as a measure of the work done and, ultimately, the OAG's success in achieving its purpose of assisting government and public agencies in improving their performance. In this regard, the OAG continues to meet its mission. While it is accepted that the number of attest projects varies slightly year over year as a result of government reorganization, it is a significant concern to the Office that the total dollar value allocated to systems projects declined over the prior year by $372,000. This corresponds with the total decline in staff and agent hours dedicated to completing systems work in the current year and corresponding increase in resources required to complete attest work, and reflects a trend seen in Figure 3, Project History. In the 1999 reporting year, 117 systems projects, using 27,500 hours of staff time, were completed; in the 2000 reporting year, 90 systems projects were completed, using 22,800 staff hours. The projection for the 2001 Reporting Year reverses this trend and reinforces the OAG's commitment to systems work and producing effective recommendations for improving government operations.

## Business Plan

2000-2001 performance against objectives

The OAG's strategic objectives are those set out in its 2000-2001 Business Plan. The measures found under Objective 2 relate to both Objectives 1 and 2. The OAG measures its performance in achieving its objectives throughout its fiscal year as well as annually.

| Strategic Objectives | Results Against Objectives |
|---|---|
| **1. Help our clients identify and manage risks.** | |
| **2. Be leaders in validating and interpreting performance information.** | |
| • 95% of the OAG's primary recommendations will be accepted. | • 76% of primary recommendations made in the Auditor General's 1999-2000 Annual Report were accepted. |

| Strategic Objectives | Results Against Objectives |
|---|---|
| Each primary recommendation will be implemented within 3 years of its acceptance. | 16 primary recommendations accepted prior to September 1997 had not been implemented by September 2000 (refer to the Annual Report of the Auditor General, 1999-2000, page 331). |
| Average hourly cost of OAG staff will be less than 80% of that of agents. | Average hourly cost is 68% of that of agents. |
| Average hourly cost of OAG staff will be less than or meet planned hourly cost of $75.00. | Average hourly cost is $88.85. |
| 75% of management letters will be issued within 2 weeks of planned date. | Data is not available due to system limitations. Performance measure is under review, and results for corresponding measure will be reported again in 2001-2002. |
| 90% of audit reports will be issued within 2 weeks of planned date. | Data is not available due to system limitations. Performance measure is under review, and results for corresponding measure will be reported again in 2001-2002. |

**3. Provide a positive work climate, where people can develop careers as leading edge professionals in the business of legislative auditing.**

| Strategic Objectives | Results Against Objectives |
|---|---|
| Student pass rate for OAG will always be higher than that of the Province of Alberta and Canada as a whole. | Uniform Final Exam for Chartered Accountant designation:<br>National Pass Rate (all attempts) was 67.6%.<br>Provincial Pass Rate (all attempts) was 66.9%.<br>OAG Pass Rate (all attempts) was 20.0%.<br>Qualifying Exam for Chartered Accountant designation (QE):<br>Provincial Pass Rate (all attempts) was 52.3%.<br>OAG Pass Rate (all attempts) was 78.9%. |

Discussion of performance

**Recommendations accepted**

Acceptance does not include "accepted in principle" or "under review" which together account for a further 20% of the Recommendations made. When the government or a Ministry responds that a Recommendation is "accepted in principle" or "under review," it means the OAG has not been able to convince the client that implementation of the Recommendation should commence. OAG staff always work with clients to determine the most effective ways to implement the Recommendations. In some instances, the Auditor General has acknowledged that a particular Recommendation will be a difficult matter to resolve, and will take significant time and efforts on both the part of OAG and the Ministry's staff.

**Recommendations implemented**

The difficulty in resolving some issues and the demand on Ministry resources to put into effect other Recommendations are factors in implementation. Sixteen recommendations made prior to 1997 are not yet implemented. The concerned Ministries have not rejected these; rather, progress in implementation is slower than originally anticipated. Of the 16 recommendations, the progress with 10 is satisfactory. Details of the recommendations in question can be found on page 331 of the 1999-2000 Annual Report of the Auditor General.

**Average hourly cost**

Although average hourly cost has exceeded planned hourly cost by $13.85, it is 68% of agents' hourly cost. The higher average cost is primarily due to higher manpower costs. Staff costs continue to increase as a result of market pressures. This is compounded by the change in the OAG's staff mix whereby the Office has a higher number of professional staff than in prior years – this is the effect of both recruiting efforts and internal growth. Also, both the reliance on, and cost of, temporary staff services continues to increase with market pressures.

A number of strategies are being examined to address OAG hourly cost targets, including recruiting strategies, work mix, and job staffing.

**Student pass rate**

The student pass rate is viewed as a critical success factor for the OAG. The shortage of professional staff in the accounting industry makes internally trained, qualified staff that much more valuable. To this end, the OAG has put great emphasis on professional training and development programs, both pre and post qualification. Given the changing professional program under the CA School of Business, the OAG is reviewing the support it will provide its students with a view to assisting them as required for their successful completion of their professional programs.

Recognizing that the QE is the first step in professional training, in the last year, the OAG embarked upon a more in-depth training program for this exam. Students benefited from weekend sessions and experienced, well-known lecturers to assist them plan and execute their study programs and achieve greater success.

## Alberta Legislature

## Office of the Auditor General

## Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original Signed by Peter Valentine]
Peter Valentine, FCA
Auditor General
July 31, 2001

# Alberta Legislature
# Office of the Auditor General
# Financial Statements
# March 31, 2001

Auditor's Report

Balance Sheet

Statement of Operations

Statement of Changes in Financial Position

Notes to the Financial Statements

Schedule of Output Costs by Ministry

Schedule of Recommendation Work and Status of Recommendations

Schedule of Other Performance Information

**Kingston Ross Pasnak LLP**
Chartered Accountants KRP

# Auditor's Report

To the Chairman, Standing Committee on Legislative Offices:

We have audited the balance sheet of the Office of the Auditor General as at March 31, 2001 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed by Kingston Ross Pasnak]
Kingston Ross Pasnak LLP
Chartered Accountants
June 29, 2001
Edmonton, Alberta

## Alberta Legislature
## Office of the Auditor General
## Statement of Financial Position
## As at March 31, 2001

| | 2001 | 2000 |
|---|---|---|
| **Assets** | | |
| Audit fees receivable | $ 1,111,052 | $ 853,628 |
| Other receivables and advances | 71,990 | 8,305 |
| Work in progress | 769,928 | 535,438 |
| Capital assets (Note 3) | 652,434 | 818,385 |
| | $ 2,605,404 | $ 2,215,756 |
| **Liabilities** | | |
| Accounts payable | $ 627,803 | $ 1,207,234 |
| Accrued vacation pay | 870,256 | 761,641 |
| Deferred contributions related to capital assets | 652,434 | 818,385 |
| | 2,150,493 | 2,787,260 |
| **Net Assets (Liabilities)** | | |
| Net liabilities at beginning of year | (571,504) | (165,089) |
| Net cost of operations | (10,895,422) | (10,267,515) |
| Capital and operating contributions | 12,090,727 | 10,204,622 |
| Deferred contributions related to capital asset additions | (168,890) | (343,522) |
| | 454,911 | (571,504) |
| | $ 2,605,404 | $ 2,215,756 |

The accompanying notes and schedules are part of these financial statements.

## Alberta Legislature
## Office of the Auditor General
## Statement of Operations
## For the year ended March 31, 2001

| | 2001 | | 2000 |
|---|---|---|---|
| | Budget<br>(Note 5) | Actual | Actual |
| Expenses: | | | |
| Manpower: | | | |
| Salaries and wages (Note 7) | $ 6,684,586 | $ 6,700,146 | $ 6,166,213 |
| Manpower services | 2,000,000 | 1,547,586 | 1,096,266 |
| Employer contributions | 872,600 | 905,805 | 824,395 |
| Recruitment, training and development | 328,660 | 267,904 | 299,673 |
| | 9,885,846 | 9,421,441 | 8,386,547 |
| Supplies and services: | | | |
| Office leases (Note 6) | 307,050 | 293,685 | 208,353 |
| Travel | 357,000 | 314,940 | 302,783 |
| Professional services | 541,000 | 190,910 | 273,686 |
| Materials and supplies | 230,000 | 236,823 | 222,633 |
| Amortization of capital assets | 421,964 | 334,841 | 441,432 |
| Repairs and maintenance | 19,000 | 12,063 | 18,925 |
| Telephone and communications | 90,000 | 88,053 | 77,707 |
| Rental of office equipment | 43,100 | 42,567 | 41,484 |
| Computer services | 185,800 | 190,650 | 174,404 |
| Miscellaneous | 52,500 | 56,247 | 53,782 |
| | 2,247,414 | 1,760,779 | 1,815,189 |
| Total office professional services | 12,133,260 | 11,182,220 | 10,201,736 |
| Agent professional services | 3,500,292 | 2,645,947 | 2,496,012 |
| Expenses before work in progress adjustment | $ 15,633,552 | 13,828,167 | 12,697,748 |
| Change in Annual Report work in progress | | (234,490) | 48,395 |
| Total expenses for the year | | 13,593,677 | 12,746,143 |
| Less: Audit fee revenue | | (1,981,001) | (1,868,093) |
| Amortization of deferred contributions related to capital assets | | (334,842) | (387,432) |
| Contribution of services provided at no charge | | (382,412) | (223,103) |
| Net cost of operations for the year | | $ 10,895,422 | $ 10,267,515 |

## Alberta Legislature
## Office of the Auditor General
## Statement of Changes in Financial Position
## For the year ended March 31, 2001

| | 2001 | 2000 |
|---|---|---|
| Operating transactions: | | |
| Net cost of operations | $(10,895,422) | $(10,267,515) |
| Non-cash transactions: | | |
| Amortization of capital assets | 334,842 | 441,432 |
| Amortization of deferred contributions related to capital assets | (334,842) | (387,432) |
| | (10,895,422) | (10,213,515) |
| Decrease (Increase) in audit fees receivable | (257,424) | (92,138) |
| Decrease (Increase) in other receivables and advances | (63,685) | 13,136 |
| Decrease (Increase) in work in progress | (234,490) | 48,395 |
| Increase (Decrease) in accounts payable | (579,431) | 273,828 |
| Increase (Decrease) in accrued vacation pay | 108,615 | 109,194 |
| Net cash provided (used) by operating transactions | (11,921,837) | (9,861,100) |
| Investing transactions: | | |
| Purchase of capital assets | (168,890) | (343,522) |
| Financing transactions: | | |
| Net transfer (to) from general revenues | 12,090,727 | 10,204,622 |
| Net cash provided (used) | - | - |
| Cash, beginning of year | - | - |
| Cash, end of year | $ - | $ - |

# Alberta Legislature
# Office of the Auditor General
# Notes to the Financial Statements
# March 31, 2001

## Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act*, Chapter A-49, Revised Statutes of Alberta 1980. The net cost of operations of the Office of the Auditor General is financed by general revenues of the Province of Alberta. The Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Auditor General provides opinions on accountability reports and issues an Annual Report to the Legislative Assembly containing recommendations designed to improve the financial administration of the Province. The 1999-2000 Annual Report of the Auditor General was released in the 2001 fiscal year covered by these financial statements.

## Note 2 Significant Accounting Policies and Reporting Practices

### (a) Audit fees

Audit fee revenue is recognized when billable opinion work is performed. Audit fees are charged to organizations, which are funded primarily from sources other than Provincial general revenues.

### (b) Output costs

Schedule 1 provides detailed costs for three types of output:

i) Attest Projects result in Auditor's Reports on financial statements.

ii) Systems Projects are undertaken to produce recommendations for improved government management of and accountability for public resources in the Auditor General's Annual Report to the Legislative Assembly.

iii) Other Client Services represent various types of assistance provided to clients, such as advising task forces, and other special projects which may or may not lead to recommendations for the Annual Report and do not result in audited financial statements.

## Note 2 Significant Accounting Policies and Reporting Practices (continued)

### (c) Work in progress

Work in progress is the cost of work on systems projects for the following Annual Report. The cost of systems work is reflected in the statement of operations in the year in which the Annual Report is published. In this way, the cost of the output is matched with the delivery of the output.

### (d) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

| | |
|---|---|
| Computer hardware | 33% |
| Computer software | 20% |
| Office equipment | 10% |
| Leasehold improvements | term of the lease |

### (e) Deferred contributions related to capital assets

Contributions from general revenues received and expended for the acquisition of capital assets are deferred and amortized to the statement of operations as the capital assets are consumed.

### (f) Pension expense

Pension costs included in these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

### (h) Other receivables and advances

Included in other receivables and advances are prepaid expenses of $51,582. During the year, the Office changed its method of accounting for prepaid expenses. The change has been applied prospectively as amounts prior to 2001 were not significant.

### (i) Comparative figures

Certain 2000 figures have been reclassified to conform to the 2001 presentation.

## Note 3 Capital Assets

| | 2001 | | | 2000 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Computer hardware | $ 853,214 | $ 800,169 | $ 53,045 | $ 185,978 |
| Computer software | 769,750 | 660,281 | 109,469 | 134,277 |
| Office equipment | 686,214 | 276,930 | 409,284 | 393,517 |
| Leasehold improvements | 319,766 | 239,130 | 80,636 | 104,613 |
| | $ 2,628,944 | $ 1,976,510 | $ 652,434 | $ 818,385 |

## Note 4 Pensions

The Office participates in the following multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers established July 1, 1999. The expense for these pension plans is equivalent to the annual contributions of $441,215 for the year ended March 31, 2001 (2000: $367,838).

At December 31, 2000, the Management Employees Pension Plan reported a surplus of $104,658,000 (1999: $46,019,000) and the Public Service Pension Plan reported a surplus of $635,084,000 (1999: $517,020,000). At December 31, 2000, the Supplementary Retirement Plan for Public Service Managers had a surplus of $180,000 (1999: $33,000).

## Note 5 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Standing Committee on Legislative Offices on December 15, 1999.

The actual amount of expenses voted to the Office was $15,252,551, which is $381,001 less than the budget shown on the statement of operations. The difference relates to expenses voted to government departments who were to pay certain of the Office's costs.

Note 5 Budget (continued)

The following is a comparison of actual expenses to the voted operating budget:

| | Amount |
|---|---|
| Budget shown on statement of operations | $ 15,633,552 |
| Less amounts included to be paid by government departments | (381,001) |
| 2000-2001 voted budget | 15,252,551 |
| Actual expenses (before work in progress adjustment) shown on statement of operations | 13,828,167 |
| Less amounts included paid by government departments | (382,412) |
| 2000-2001 actual expenses for comparison with voted budget | 13,445,755 |
| 2000-2001 unexpended | $ 1,806,796 |

The following is a comparison of actual capital investment to the voted capital budget:

| | Amount |
|---|---|
| Budget presented to the Standing Committee | $ 556,000 |
| Less amounts included to be paid by government departments | (125,000) |
| 2000-2001 voted budget | 431,000 |
| Actual purchase of capital assets shown on the statement of changes in financial position | 168,890 |
| Less amounts included paid by government departments | (50,000) |
| 2000-2001 actual purchases for comparison with voted budget | 118,890 |
| 2000-2001 unexpended | $ 312,110 |

## Note 6 Lease Commitments

Minimum rental commitments for leased accommodations are as follows:

| Fiscal: | |
|---|---|
| 2002 | $509,890 |
| 2003 | 486,378 |
| 2004 | 489,725 |
| 2005 | 499,768 |
| 2006 | 503,031 |

## Note 7 Salaries and Benefits

Salaries and benefits of the Auditor General and his five Assistants comprise:

| | 2001 | | | 2000 |
|---|---|---|---|---|
| | Salary(1) | Benefits and Allowances(2)(3) | Total | Total |
| Auditor General(4) | $ 160,616 | $ 45,385 | $ 206,001 | $ 191,631 |
| Assistant Auditor General(5) | 117,500 | 28,082 | 145,582 | 132,798 |
| Assistant Auditor General(6) | 108,760 | 35,140 | 143,900 | 124,367 |
| Assistant Auditor General(7) | 129,300 | 29,938 | 159,238 | 144,926 |
| Assistant Auditor General(8) | 129,300 | 39,470 | 168,770 | 154,018 |
| Assistant Auditor General(9) | 131,500 | 31,616 | 163,116 | 154,811 |
| | $ 776,976 | $ 209,631 | $ 986,607 | $ 902,551 |

(1) Salary includes regular base pay, bonuses, and lump sum payments.

(2) Benefits and allowances include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition fees.

(3) Benefits and allowances include vacation payments as follows:

| | 2001 | 2000 |
|---|---|---|
| Assistant Auditor General(5) | $ 4,119 | $ 1,526 |
| Assistant Auditor General(6) | 9,828 | - |
| Assistant Auditor General(7) | - | - |
| Assistant Auditor General(8) | 9,142 | 8,314 |
| Assistant Auditor General(9) | - | - |

Note 7 Salaries and Benefits (continued)

(4) Automobile provided, no dollar amount included in benefits and allowances figures.
(5) Major responsibilities – Systems Auditing
(6) Major responsibilities – Performance Measurement, Cross Government Issues, Environment, Children's Services
(7) Major responsibilities – Treasury, Resource Development, Agriculture, Food & Rural Development, Human Resources & Employment
(8) Major responsibilities – Professional Practice and Quality Assurance
(9) Major responsibilities – Learning, Health and Wellness, Community Development.

Schedule 1

## Alberta Legislature
## Office of the Auditor General
## Schedule of Output Costs by Ministry
## For the year ended March 31, 2001

| | 2001 | | | | | 2000 | |
|---|---|---|---|---|---|---|---|
| | Total Attest Projects | Total Systems Projects | Other Client Services | Total | Annual Report Recommendations | Annual Report Recommendations | Total |
| Learning | $ 2,841,586 | $ 208,465 | $ - | $ 3,050,051 | 20 | 21 | $ 3,162,317 |
| Health & Wellness | 1,621,523 | 621,052 | 63,476 | $ 2,306,051 | 11 | 12 | 2,233,827 |
| Treasury | 1,684,054 | 155,151 | 66,756 | 1,905,961 | 10 | 12 | 1,836,139 |
| Children's Services | 925,361 | 52,123 | - | 977,484 | 9 | 2 | 380,518 |
| Cross-Government Issues | 364,138 | 345,348 | 53,250 | 762,736 | 4 | 13 | 785,908 |
| Agriculture, Food and Rural Development | 510,550 | 86,549 | 320 | 597,419 | 11 | 2 | 492,823 |
| Resource Development | 490,709 | 2,900 | - | 493,609 | 2 | 3 | 463,810 |
| Human Resources and Employment | 389,785 | 53,590 | - | 443,375 | 2 | 3 | 558,119 |
| Community Development | 420,720 | 18,794 | - | 439,514 | 3 | 2 | 373,439 |
| Environment | 294,771 | 129,315 | - | 424,086 | 6 | 8 | 354,619 |
| Innovation and Science | 322,302 | 51,592 | - | 373,894 | 2 | 0 | 291,515 |
| Municipal Affairs | 352,326 | 8,532 | - | 360,858 | 1 | 1 | 335,650 |
| Infrastructure | 300,749 | 21,245 | - | 321,994 | 5 | 1 | 517,116 |
| Gaming | 236,856 | 24,902 | - | 261,758 | 2 | 1 | 124,219 |
| Justice and Attorney General | 205,265 | 49,409 | - | 254,674 | 3 | 2 | 300,381 |
| Legislative Assembly | 155,460 | - | - | 155,460 | 0 | 0 | 106,696 |
| Economic Development | 85,688 | 42,188 | - | 127,876 | 3 | 0 | 152,354 |
| International and Intergovernmental Relations | 83,770 | 41,293 | - | 125,063 | 1 | 0 | 123,425 |
| Executive Council | 111,150 | 2,017 | - | 113,167 | 0 | 0 | 99,366 |
| Government Services | 85,832 | 12,815 | - | 98,647 | 0 | 0 | 53,902 |
| | $ 11,482,595 | $ 1,927,280 | $ 183,802 | $ 13,593,677 | 95 | 83 | $ 12,746,143 |

Schedule 2

## Alberta Legislature
## Office of the Auditor General
## Schedule of Recommendation Work and Status of Recommendations
## For the year ended March 31, 2001

**Focus of Work**

| | 1999-2000 Recommendations | | 1998-99 Recommendations | |
|---|---|---|---|---|
| | Primary | Secondary | Primary | Secondary |
| Governance | 5 | 4 | 4 | 7 |
| Planning what needs to be done to achieve goals | 15 | 9 | 19 | 8 |
| Doing the work and monitoring progress | 17 | 26 | 13 | 12 |
| Reporting on results | 12 | 7 | 11 | 5 |
| Year 2000 | - | - | - | 1 |
| Compliance with authorities, and matters of probity | - | - | 3 | - |
| | 49 | 46 | 50 | 33 |

**Government Response to Recommendations**

| | April 24, 2001 (date of response) | | November 30, 1999 (date of response) | |
|---|---|---|---|---|
| | | % | | % |
| Accepted | 37 | 76% | 40 | 80% |
| Accepted in principle | 9 | 18% | 7 | 14% |
| Under review | 1 | 2% | 3 | 6% |
| Rejected (1) | 2 | 4% | - | 0% |
| | 49 | 100% | 50 | 100% |

(1) Recommendations described by the government as "partially accepted" are considered rejected until such time as they are fully accepted.

**Analysis of Recommendations**

The response to a primary recommendation, and any remedial action taken, is reported in the subsequent Annual Report. When the Auditor General considers that insufficient progress has been made in implementing a recommendation, it is repeated. Recommendations not repeated either have been, or are being, implemented satisfactorily. On occasion, a recommendation is neither implemented nor repeated due to changed circumstances.

| | 1999-2000 Annual Report | | 1998-99 Annual Report | |
|---|---|---|---|---|
| | | % | | % |
| New recommendations | 33 | 67% | 28 | 56% |
| Repeat recommendations | 16 | 33% | 22 | 44% |
| Total primary recommendations | 49 | 100% | 50 | 100% |

**Performance Measurement**

The Office has set performance targets as follows:

1. Each primary recommendation will be implemented within three years of its acceptance.
   Actual Performance:
   The Office has not met the target. By September 2000, 16 recommendations accepted prior to September 1997 had not been implemented.
2. 95% of primary recommendations will be accepted.
   Actual Performance:
   The Office has not met the target. As shown above, 76% of the primary recommendations were accepted.

Schedule 3

### Alberta Legislature
### Office of the Auditor General
### Schedule of Other Performance Information
### For the year ended March 31, 2001

**Average Hourly Costs**

| | Auditor General | | Agents[1] | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Overall average | $ 88.85 | $ 81.96 | $ 129.74 | $ 99.26 |

**Average hourly costs as a percentage of agent average hourly costs**

The Office has set a performance target as follows:

Average hourly costs will not exceed 80% of agent average hourly costs.

The Office has met the target as indicated below.

| Target | 2001 | 2000 |
|---|---|---|
| Not greater than 80% | 68% | 83% |

[1] Average based on fees paid to major agents in metropolitan centres.

**Public Reporting**

| | 1999-2000 Reports | 1998-99 Reports |
|---|---|---|
| Auditor General's Annual Report: | | |
| Date of Report | October 3, 2000 | September 27, 1999 |
| Date of public release | October 12, 2000 | October 5, 1999 |
| Consolidated financial statements: | | |
| Date of the Auditor's Report | June 22, 2000 | June 18, 1999 |
| Date of public release | June 29, 2000 | June 28, 1999 |

# Committees and Agents

## Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on May 31, 2001, the day the Assembly last adjourned, were:

Janis Tarchuk, Chair
Denis Ducharme, Deputy Chair
Laurie Blakeman
Gary Friedel
Yvonne Fritz
Marlene Graham
Mark Hlady
Mary O'Neill
Raj Pannu
Kevin Taft
Don Tannas

## Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

E. Susan Evans, QC, Chair
The Hon. Patricia Nelson
Patrick Daniel
Frank Kobie
Alastair Ross
Peter Watson
Beverly Wittmack

## Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report and the ministry annual reports are used by the Committee in its examination of the use and control of public resources.

Hugh MacDonald, Chair
Shiraz Shariff, Deputy Chair
Cindy Ady
Laurie Blakeman
Dave Broda
Wayne Cao
Harvey Cenaiko
Alana Delong
Hector Goudreau
Drew Hutton
Mary-Ann Jablonski
Thomas Lukaszuk
Richard Marz
Brian Mason
Luke Ouellette
Kevin Taft
Janis Tarchuk

## Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 2001, were as follows:

BDO Dunwoody LLP
Clews & Shoemaker
Craig Davies Collins
Collins Barrow
Deloitte & Touche LLP
Ernst & Young LLP
Feddema & Company
Grant Thornton LLP
Gregory, Harriman & Associates
Hawkings Epp Dumont LLP
Heywood Holmes & Partners
Hudson & Company
Johnston, Morrison, Hunter & Co.
Joly, McCarthy & Dion
King & Company
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP
Roy Solbak Walsh
Tien Rostad
Young Parkyn McNab & Co.

The employees of the Office of the Auditor General as of the date of this report, and students who worked over the summer, are:

Allan Font
Amy Van Konkelenberg
Angela Nicoli-Griffiths, CA
Ann Phan
Annie Shiu, CHRP
AnnMarie DeProphetis
Arlene Sideroff
Aynour Salama
Barbara Clay, CA
Barbara Grendowicz
Barry Timmons, CMA
Bob Ballachay, CA, CMA
Bob Fitzsimmons, CA
Brad Ireland, CA
Brad Weiland
Brian Corbishley, DBA, CMC
Bruce Laycock, Barrister and Solicitor
Carlo Bruno
Cathy Ludwig, CA
Cecille Quinto
Charlotte Barry
Cornell Dover, CA, CISA
Cory Goodale
Dale Beesley, CMA
Dale Bormann, CHRP
Damien Jaipaul
Dan Balderston, CA
Darlene Orsten
David Birkby, CA
David Chalupnik
Domenic Gallace, CMA
Donna Banasch, CA, CMA
Donna Chapman
Donna Yurkiwsky, CA
Doug Bewick, CCP, ISP
Doug McKenzie, LLB, CA
Doug Wylie, CMA
Farah Virani
Gerry Lain, CA
Graeme Arklie, CA
Greg Bendall
Jackie Di Lullo
Jaime Mckenzie
Jane Staples, CA
Janine Mryglod
Jeff Dumont, CA
Jeff Senger
Jeff Sittler
Jillian Cameron
Jim Hug, CA
Jim Martin
Joe Ng
John Margitich
Karen Chan
Karen Hunder, CA
Karen Lau
Karen Schmidt
Kariann Burmaster
Karim Pradhan, CA
Kathleen Gora, CA
Kathryn Pringle
Kathy Anderson
Ken Hoffman, CA
Kristi Berlin
Kristy Hinderks
Lawrence Taylor, CA
Levy Castillo
Lisa Peterson, CHRP
Lori Trudgeon
Loulou Eng, CMA
Lynda Turpin
Marcin Lach
Marteen Dalke
Mary-Jane Dawson, CA
Merwan Saher, CA
Michael Reinhart
Michael Sendyk
Michelle Fleming
Mike Stratford, CA
Monica Jeske, CA
Monica Norminton, LLB, MBA, CA
Monica Smolik
Nadia Potochniak
Nick Shandro, CA
Pamela Tom, CMA
Paul Beck, CA
Patricia Hayes, CA
Patrick Doyle
Pelma Jore
Peter Valentine, FCA
Peter Zuidhof, CGA
Phil Minnaar
Rahim Kanji
Ram Rajoo, CA
Rene Boisson, CMA
Robert Drotar, CA
Roger Elvina
Ronda White, CA
Rupert Cass, CA
Salima Mawani, CA
Shauna Bruce
Shawn Dineen
Sherry Hassen, CA
Simon Lee
Stu Orr
Sukh Johal
Sunil Khurana
Tabreez Lila
Tammy Bailey, CMA
Tanya Humphrey
Teresa Mitchell, CA
Teresa Wong, CA
Theresa Politylo
Thomas Wong
Tim Lamb
Tina Andrews
Todd Wellington, CGA
Tony Payne, CISA, MBA
Trevor Mills, CA
Trevor Shaw, CA, CMC
Valerie Holmgren-Jones, CMA
Venus Toy
Vivek Dharap, CA, CISA
Yien-Wyn Yip

# AUDITOR GENERAL ACT

## CHAPTER A-49

*Table of Contents*

Definitions 1
Meaning of other words 2
Appointment of Auditor General 3
Resignation of Auditor General 4
Suspension or removal from office 5
Vacancy in office 6
Salary and benefits 7
Acting Auditor General 8
Office of the Auditor Genera 19
Engagement of services on fee basis 10
Delegation of power or duty 11
Auditor General as auditor 12
Financing of operations 13
Auditor General may charge fees 14
Access to information 15
Right to information 16
Reliance on auditor 16.1
Special duties of Auditor General 17
Annual report on financial statements 18
Annual report of Auditor General 19
Special reports20
Establishment of Audit Committee 21
Meetings of Audit Committee 22
Information re scope and results of audit 23
Availability of reports 24
When report not required 25
Supplementary information 26
Audit working papers 27
Report after examination 28
Advice on organization, systems, etc. 29
Annual audit 30
Records Management 31

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows

Definitions

**1** In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) repealed 1993 c19 s17;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman,

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer,

(iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner, and

(v) the Information and Privacy Commissioner and the staff of the Office of the Information and Privacy Commissioner;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money owned or held by Alberta Treasury Branches;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act*;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s49;
1993 c19 s17;1994 cF-18.5 s93; 1997 cA-37.9 s39

Meaning of other words

**2** Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

**3(1)** There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

**(2)** Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

**(3)** An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

**4** The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

**5** On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

**6(1)** If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

**(2)** If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

**7(1)** The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

**(2)** The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

**8(1)** The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

**(2)** If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

**(3)** In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

**9(1)** There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

**(2)** On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under *the Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

**(3)** An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

**(4)** *The Regulations Act* does not apply to orders made under subsection (2).

**(5)** The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

**10** The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

**11(1)** Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

**(2)** The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

**12** The Auditor General

(a) is the auditor of every ministry, department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12; 1995 cG-5.5 s17

Financing of operations

**13(1)** The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

**(2)** The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

**(3)** If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

**(4)** When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

**(5)** When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

**(6)** When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

**(7)** When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

**14** The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

**15(1)** The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

**(2)** A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

**(3)** The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

**(4)** The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to information

**16(1)** If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

**(2)** If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Reliance on auditor

**16.1(1)** In this section, "regional authority" means a board under the School Act or a regional health authority, subsidiary health corporation, community health council or provincial health board under the Regional Health Authorities Act.

**(2)** If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

(a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person's findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,

(b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and

(c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

**(3)** A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

**(4)** If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

**17(1)** The Auditor General shall perform such special duties as may be specified by the Assembly.

**(2)** The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

**18(1)** After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

**(2)** A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of Auditor General

**19(1)** After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

**(2)** A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

**(3)** In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

**(3.1)** After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.1.

**(4)** A report under this section shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

**(5)** The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

RS cA-49 s19; 1995 cG5.5 s17;1996 cA-27.01 s22

Special reports

**20(1)** The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

**(2)** A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

**21(1)** There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

**(2)** The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

**(3)** The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

**22(1)** The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

**(2)** The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

**23** The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

**24** An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

**25** In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

**26** The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

**27** Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

**28** The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

**29** The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

**30(1)** The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

**(2)** An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

**(3)** An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

**(4)** A report made under this section shall be presented to the Chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

Records Management

**31** On the recommendation of the Auditor General, the Select Standing Committee may make an order

(a) respecting the management of records in the custody or under the control of the Office of the Auditor General, including their creation, handling, control, organization, retention, maintenance, security, preservation, disposition, alienation and destruction and their transfer to the Provincial Archives of Alberta;
(b) establishing or governing the establishment of programs for any matter referred to in clause (a);
(c) defining and classifying records;
(d) respecting the records or classes of records to which the order or any provision of it applies.

SA 1995 c34 s1

Agriculture Financial Services Corporation ... 53, 54
Alberta Alcohol and Drug Abuse Commission ... 128
Alberta College of Art and Design ... 222
Alberta College-Edmonton ... 222
Alberta Corporate Service Centre ... 41
Alberta Dairy Control Board ... 54
Alberta Energy and Utilities Board ... 238
Alberta Foundation for Health Research ... 175
Alberta Foundation for the Arts ... 77
Alberta Gaming and Liquor Commission ... 102
Alberta Heritage Foundation for Medical Research ... 175
Alberta Heritage Foundation for Medical Research Endowment Fund ... 261
Alberta Heritage Foundation for Science and Engineering Research ... 174, 175
Alberta Heritage Savings Trust Fund ... 261
Alberta Heritage Scholarship Fund ... 261
Alberta Heritage Science and Engineer Research Endowment Fund ... 261
Alberta Municipal Financing Corporation ... 261
Alberta Opportunity Company ... 53, 54
Alberta Pensions Administration Corporation ... 261
Alberta Petroleum Marketing Commission ... 241
Alberta Research Council Inc. ... 175
Alberta Risk Management Fund ... 261
Alberta School Foundation Fund ... 200
Alberta Science and Research Authority ... 175
Alberta Securities Commission ... 261
Alberta Social Housing Corporation ... 77
Alberta Sport, Recreation, Parks and Wildlife Foundation ... 77
Alberta Teachers' Retirement Fund Board ... 201
Alberta Treasury Branches ... 256
ARCA Investments Inc. ... 261
Arctic Institute of North America ... 216
Athabasca University ... 207
Awasak Child and Family Services Authority ... 71
Bow Valley College ... 222
Calgary Rocky View Child and Family Services Authority ... 71
Child and Family Service Authorities ... 72
Child and Family Services Authority – Region 13 .. 71
Consolidated Cash Investment Trust Fund ... 261
Consolidated Financial Statement of the Province 251
Council of Academic Health Centres of Alberta ... 94
Credit Union Deposit Guarantee Corporation ... 261
Crop Reinsurance Fund of Alberta ... 54
Diamond Willow Child and Family Services Authority ... 71
Environmental Protection and Enhancement Fund .. 92
Fairview ... 222
Fairview College Foundation ... 222
Government Employees Extended Medical Benefits Plan Trust ... 144
Government of Alberta Dental Plan Trust ... 144
Grande Prairie Regional College ... 222
Grande Prairie Regional College Foundation ... 222
Grant MacEwan College ... 216, 222
Hearthstone Child and Family Services Authority .. 71
Historic Resources Fund ... 77
Human Rights, Citizenship and Multiculturalism Education Fund ... 77
ICORE Inc. ... 175
Improvement Districts 4, 9, 12, 13 and 24 ... 232
Joint Standards Directorate ... 144
Kananaskis Improvement District ... 232
Keyano College ... 222
Keystone Child and Family Services Authority ... 71
Lakeland College ... 222
Lethbridge Community College ... 222
Local Authorities Pension Plan ... 262
Long Term Disability Income Continuance Plan-Bargaining Unit ... 144
Long Term Disability Income Continuance Plan-Management, Opted Out and Excluded ... 144
Lottery Fund ... 102
Ma'Mowe Capital Region Child and Family Services Authority ... 71
Management Employees Pension Plan ... 262
Medicine Hat College ... 222
Medicine Hat College Foundation ... 222
Metis Settlement Transition Commission ... 179
Metis Settlements Child and Family Services Authority ... 71
Ministry of Agriculture, Food and Rural Development ... 53
Ministry of Children's Services ... 71
Ministry of Community Development ... 76
Ministry of Economic Development ... 80
Ministry of Environment ... 91
Ministry of Executive Council ... 95
Ministry of Gaming ... 102
Ministry of Government Services ... 107
Ministry of Health and Wellness ... 111
Ministry of Human Resources and Employment ... 143
Ministry of Infrastructure ... 165
Ministry of Innovation and Science ... 175
Ministry of International and Intergovernmental Relations ... 180
Ministry of Justice and Attorney General ... 186
Ministry of Learning ... 189
Ministry of Municipal Affairs ... 232
Ministry of Resource Development ... 241
Ministry of Treasury ... 254
Mount Royal College ... 218, 222

Mount Royal College Day Care Society ................222
N.A. Properties (1994) Ltd. ..................................261
Natural Resources Conservation Board ...................92
Neegan Awas'sak Child and Family Services
  Authority ..................................................................71
Norquest College ......................................................222
Northern Alberta Institute of Technology ..............222
Northern Lakes College ..........................................222
Northland School Division No. 61 .........................201
Olds College ............................................................222
Olds College Foundation .........................................222
Olympic Oval/Anneau Olympique .........................215
Orion Properties Ltd. ...............................................261
PENSE Inc. ..............................................................208
Persons with Developmental Disabilities Boards ..128
Portage College .......................................................222
Provincial Judges and Masters in Chambers Pension
  Plan Fund ...............................................................262
Public Service Management (Closed Membership)
  Pension Plan ..........................................................262
Public Service Pension Plan ...................................262
Red Deer College .....................................................222
Region 14 Child and Family Services Authority .....71
Research Technology Management Inc. ................208
Ribstone Child and Family Services Authority .......71
S C Financial Ltd. ....................................................261
Sakaigun Asky Child and Family Services Authority
  ..................................................................................71
Sakaw-Askiy Child and Family Services Authority 71
Silver Birch Child and Family Services Authority ..71
Southeast Alberta Child and Family Services
  Authority ..................................................................71
Southern Alberta Institute of Technology .....219, 222
Special Areas Trust Account ..................................232
Special Forces Pension Plan ...................................262
Sun Country Child and Family Services Authority .71
Supplementary Retirement Plan Reserve Fund ....261, 262
The Alberta Government Telephones Commission
  ................................................................................261
The Alberta Historical Resources Foundation .........77
The Government House Foundation .........................77
The Wild Rose Foundation .......................................77
Universities Academic Pension Plan ......................262
University of Alberta ..............................................207
University of Alberta 1991 Foundation ..................208
University of Calgary ..............................................212
University of Lethbridge .........................................222
Victims of Crime Fund ............................................186
West Yellowhead Child and Family Services
  Authority ..................................................................71
Windsong Child and Family Services Authority .....71
Workers' Compensation Board – Alberta .............142